

Financial Accounting & Reporting - I Volume-2

**Study Text Practice Questions and Topic
Wise Exam Questions & Answers Including
Solution of Question Bank of
ICAP Updated up to March 2022**

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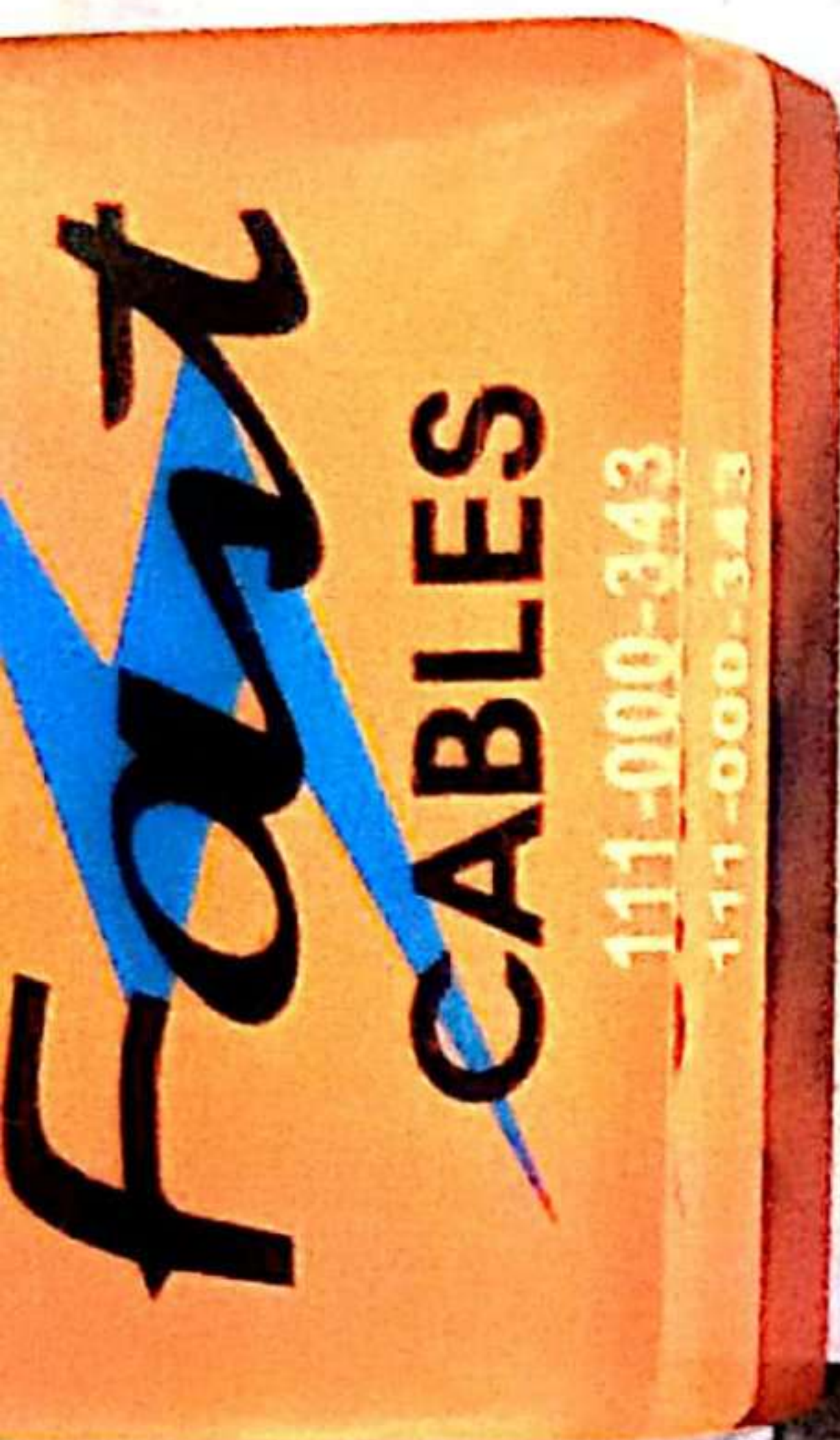
**FINANCIAL
ACCOUNTING AND
REPORTING – 1**

(VOLUME - II)

**Study Text Practice Questions and Topic Wise Exam
Questions & Answers Including Solution of Question
Bank of ICAP Updated upto March 2022**

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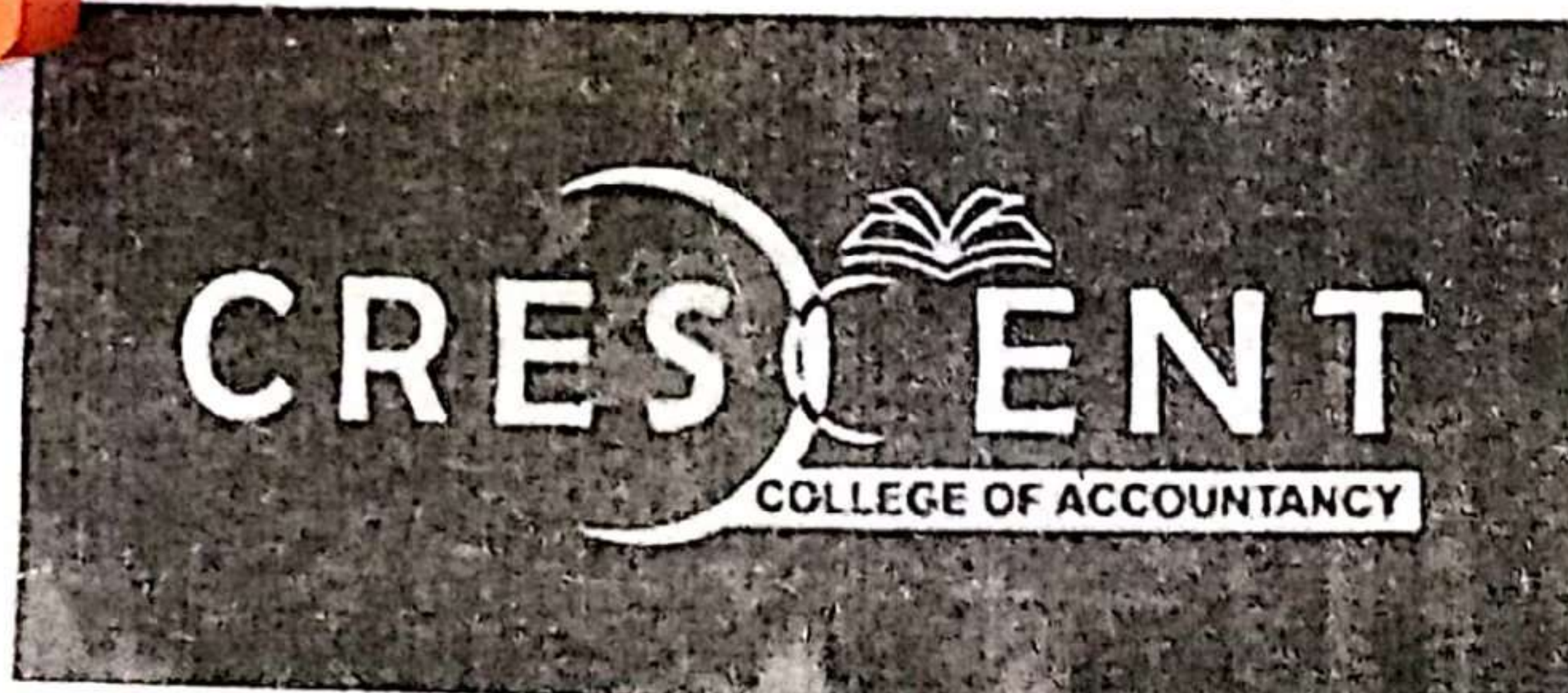


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CABLES

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IAS 33: Earnings Per Share

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INTERNATIONAL ACCOUNTING STANDARD 33 EARNINGS PER SHARE

LO1: INTRODUCTION OF EARNINGS PER SHARE

1.1 Earnings per share

Earnings are profits available for equity (ordinary shareholders).

Earnings

- Earnings attributable to ordinary shareholders usually means profit after tax less preference dividend.
- If preference dividend is cumulative, such dividend for the period need to be taken into account irrespective of whether declared or not.
- If preference dividend is non-cumulative, such dividend for the period need to be taken into account only for the amount of dividend declared for the period.
- In case of consolidated financial statements, share of profit of non-controlling interest is also excluded.
- Earnings from discontinued operations are dealt with separately. An EPS from any discontinued operations must also be disclosed, but this does not have to be disclosed on the face of the statement of profit or loss. Instead, it may be shown in a note to the financial statements.

1.2 Usefulness of EPS as financial information

EPS is an important component of determining an entity's P/E ratio i.e. calculated as market value per share divided by earnings per share. P/E ratio is often used by investor in making stock market decisions. The reliable EPS means reliable P/E ratio leading to better and informed decisions by investors.

Investors and their advisers pay close attention to an entity's net profit for the period. However, profit for the period can include large and unusual items and also the results of discontinued operations. This may make it volatile i.e. liable to fluctuate rapidly up and down. Users can then find it difficult to assess trends in the profit figure or to use the current year's profit to predict an entity's performance in future years.

The trend (improvement or deterioration) in an entity's published EPS figure can sometimes be a more reliable indicator of future performance. There are a number of reasons for this.

- The standard version of both basic and diluted EPS is based on profit from continuing operations. This means that the results of discontinued operations (which may distort total profit) are excluded.
- An entity may also choose to present one or more alternative versions of EPS. These normally exclude large or unusual items so that EPS is based on 'normal' recurring earnings.
- EPS measures an entity's performance from the viewpoint of investors. It shows the amount of earnings available to each ordinary shareholder. This means that EPS takes the effect of preference dividends (if any) into account. It also takes share issues into account.
- Diluted EPS can provide an 'early warning' of any changes to an investor's potential return on their investment due to future share issues.

Limitations of EPS

EPS is probably the single most important indicator of an entity's performance. It is a very useful measure when it is used as the starting point for a more detailed analysis of an entity's performance.

However, EPS can have serious limitations:

- Not all entities use the same accounting policies. It may not always be possible to make meaningful comparisons between the EPS of different entities.
- EPS does not take account of inflation, so that growth in EPS over time might be misleading.
- EPS measures an entity's profitability, but this is only part of an entity's overall performance. An entity's cash flow can be just as important as its profit (and more essential to its immediate survival). Changes in the value of assets (holding gains) can also be an important part of performance for some entities.
- Diluted EPS is often described as an 'early warning' to investors that the return on their investment may fall sometime in the future. However, diluted EPS is based on current earnings, not forecast earnings. This means that it may not be a reliable predictor of future EPS.

One of the main problems with EPS can be the way that it is used by investors and others. Users often rely on EPS as the main or only measure of an entity's performance. Management know this and try to make EPS appear as high as possible. They may attempt to manipulate the figure by using 'creative accounting'. They may also make decisions which increase EPS in the short term but which damage the entity in the longer term.

1.3 Basic and diluted earnings per share

IAS 33 requires entities to calculate:

- the basic earnings per share on its continuing operations
- the diluted earnings per share on its continuing operations.

Additional requirements apply to earnings relating to discontinued operations.

Diluted EPS and basic EPS will usually differ when there are potential ordinary shares in existence.

Loss

When there is a net loss, total earnings, and therefore, the EPS are negative.

1.4 Scope of IAS 33

IAS 33 applies only to **publicly-traded entities** or those which are about to be publicly traded. A publicly-traded entity is an entity whose shares are traded on a stock exchange.

Consolidation

Most publicly-traded entities prepare consolidated financial statements as well as individual financial statements. When this is the case, IAS 33 requires disclosure only of EPS based on the figures in the consolidated financial statements.

1.5 Basic EPS

Basic earnings per share is calculated by dividing the profit or loss on continuing operations by the weighted average number of ordinary shares in issue during the period. The calculation of the basic EPS is as follows:

Formula: Basic EPS

Net profit (or loss) attributable to ordinary shareholders during a period
weighted average number of shares in issue during the period

As you can see above IAS 33 gives guidance on:

- the earnings figure that must be used being the net profit (or loss) attributable to ordinary shareholders during a period (commonly referred to as **total earnings**); and
- the number of shares to be used in the calculation being the weighted average number of shares in issue during the period. Changes in share capital during a period must be taken into account in arriving at this number. IAS 33 provides guidance on how to do this.

Example

In the year ended 31 December Year 1, Entity G made profit after tax of Rs 1.5 million. Entity G had 10 million ordinary shares in issue throughout the year.

Required:

Calculate earnings per share.

Solution

$$\begin{aligned}
 \text{Earnings per share} &= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}} \\
 &= \frac{1,500,000}{10,000,000} \\
 &= 0.15 \text{ per share}
 \end{aligned}$$

LO2: TYPES OF SHARES**Ordinary share**

An ordinary share is an equity instrument that is subordinate to all other classes of equity instruments.

Preference shares and EPS

Preference shares are not ordinary shares. The interest of preference shareholders in the company is pre-defined as opposed to that of ordinary shareholders who have a residual interest in the company. Preference shares are excluded from the number of shares while calculating earnings per share.

1. Redeemable and Irredeemable Preference shares

There is a further variation with regard to preference shares; the shares may be:

- redeemable; or
- non-redeemable

Classification	Presentation	Treatment
Redeemable (it is a liability)	Dividend relating to that share is recognised as a finance cost in the statement of profit or loss.	Such dividend is already deducted from the profit or loss from continuing operations and no further adjustment need be made. (Means it will be ignored in question)
Non-redeemable (it is like equity)	Any dividend relating to that share is recognised in statement of changes in equity.	Such dividend must be deducted from the profit after tax to calculate earnings attributable to ordinary shareholders

Comparison of ordinary shares and preference shares

	Ordinary shares	Irredeemable Preference shares	Redeemable Preference shares
Dividend rate	Variable – higher in a good year, lower in a bad year	Fixed per annum	Fixed per annum
Dividend distribution	Paid only if there are spare funds after the payment of preference dividend	Receives the dividend before ordinary shareholders (therefore lower risk)	Receives the dividend before Irredeemable preference shareholders and ordinary shareholders (therefore lower risk)
Liquidation	The last to be repaid in a liquidation	Repaid before (in preference to) the ordinary shareholders	Repaid before (in preference to) Irredeemable preference shareholders and the ordinary shareholders
Voting rights	Receive the right to vote on major decisions. Each ordinary share would attract one vote.	No right to vote on company decisions.	no right to vote on company decisions
Dividend presentation	In equity	In equity (before ordinary dividend)	In financial charges in income statement
Amount of capital presentation	In equity	In equity	In non-current liabilities

Example-1 (Irredeemable Shares)

In the year ended 31 December Year 1, Entity G made profit after tax of Rs 15 million.

Entity G has 5% Preference Share Capital of Rs.5 million in issue. (The preference shares are Irredeemable).

Entity G had Ordinary Share Capital of Rs. 100 million (Rs. 10 each) in issue throughout the year.

Required

Calculate profit attributable to ordinary shareholders and EPS.

Solution

		Rs (m)
Profit after tax		15
Less: Fixed preference dividends (irredeemable)	(5 x 5%)	(0.25)
Earnings attributable to ordinary shareholders		<u>14.75</u>

$$\begin{aligned}
 \text{Earnings per share} &= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}} \\
 &= \frac{14,750,000}{10,000,000} \\
 &= 1.475 \text{ per share}
 \end{aligned}$$

Example-2 (Redeemable Shares)

In the year ended 31 December Year 1, Entity G made profit after tax from continuing operations of Rs 82 million.

Entity G has 1,000 12% Preference Shares of Rs. 10 each in issue (Preference shares are Redeemable)

Entity G had Ordinary Share Capital of Rs. 50 million (Rs. 10 each) in issue throughout the year.

Required

Calculate profit attributable to ordinary shareholders and EPS.

Solution

	Rs (m)
Profit after tax	82
Less: Fixed preference dividends (irredeemable)	(0)
Earnings attributable to ordinary shareholders	<u>82</u>

As the shares are redeemable the dividend of preference shares is already deducted as finance cost while arriving at profit after tax of Rs.82 million. Thus ignored.

$$\begin{aligned}
 \text{Earnings per share} &= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}} \\
 &= \frac{82,000,000}{5,000,000} \\
 &= 16.4 \text{ per share}
 \end{aligned}$$

Example-3

Ali Company provides you the following information for year 2016:

	Rs. (m)
Profit after Tax	150
Interest on loan	15
Dividend on redeemable preference shares	25
Dividend on irredeemable preference shares	42
Dividend on ordinary Shares	6

Following shares are in issue:

	Mill.
Number of ordinary shares in issue	20
Number of redeemable preference shares in issue	2
Number of irredeemable preference shares in issue	4

Required

Calculate earnings per share.

Solution

Profit after tax
Less: Fixed preference dividend (irredeemable)
Earnings attributable to ordinary shareholders

Rs (m)
150
(42)
108

$$\begin{aligned} \text{Earnings per share} &= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}} \\ &= \frac{108}{20} \\ &= \text{Rs. 5.4 per share} \end{aligned}$$

Note:

- Interest on loan and dividend on redeemable shares has already been deducted from profit after tax of Rs. 150 million.
- Dividend on ordinary shares will be given out of attributable profits for ordinary shares holders.

2. Cumulative and Non-Cumulative Preference Shares

Type	Description
Non-Cumulative	This means that if company fails to declare a preference dividend in a period the holders are entitled to receive the missed dividend sometime in future
Cumulative	The dividend must be deducted from profit or loss regardless of whether the dividend has been declared or not.

Example: (Cumulative Preference Shares)

In the year ended 31 December Year 1, Entity G made profit after tax from continuing operations of Rs.3,500,000.

Entity G has Rs.1,000,000 10% preference share capital in issue which is cumulative. (This would entitle investors to receive a dividend of Rs.100,000 (10% of Rs.1,000,000)). Dividend is not declared in the current year for preference share capital.

Entity G had 1 million ordinary shares in issue throughout the year.

Required

Calculate earnings per share.

Solution:

Entity G's basic EPS for the year ended 31 December Year 1 is calculated as follows:

EPS = $\frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$

$$= \frac{\text{Rs.3,500,000} - \text{Rs.100,000}}{1,000,000} = \text{Rs.3.4 per share}$$

Note that the Rs.100,000 deducted above would be deducted irrespective of whether a dividend had been declared or not. However, if these had been non-cumulative then the dividend would have been deducted only in case of declaration by the company.

Example: (Non-Cumulative Preference Shares)

In the year ended 31 December Year 1, Entity Q made profit after tax from continuing operations of Rs.5,000,000.

Entity Q has Rs.2,000,000 10% preference share capital in issue which is non-cumulative. Dividend is not declared in the current year for preference share capital.

Entity G had 3 million ordinary shares in issue throughout the year.

Required

Calculate earnings per share.

Solution:

Entity G's basic EPS for the year ended 31 December Year 1 is calculated as follows:

$$\text{EPS} = \frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$$

$$= \frac{\text{Rs.5,000,000}}{3,000,000} = \text{Rs.1.67 per share}$$

Example

A company has 10,000 ordinary shares and 10,000 10% Rs. 2 each preference shares in issue throughout 20X2. The profit after tax was Rs. 100,000 in 20X2.

Required:

Calculate the basic earnings in 20X2, assuming that the preference shares are:

- A) Non-cumulative and non-redeemable (i.e. equity) and the dividend is declared.
- B) Non-cumulative and non-redeemable (i.e. equity) and the dividend is not declared.
- C) Cumulative and redeemable (i.e. liability) and the dividend is declared.
- D) Cumulative and redeemable (i.e. liability) and the dividend is not declared.

Solution-A: preference shares (equity) and declared dividends

Profit after tax		Rs. 100,000
Less: Preference dividends on irredeemable shares	(10,000 x 2 x 10%)	(2,000)
Earnings attributable to ordinary shareholders		<u>98,000</u>

Comment: Preference dividends are deducted from retained earnings in the statement of changes in equity and must therefore be deducted from the profit or loss for the period (as per the statement of comprehensive income) to determine how much profit belongs to the ordinary shareholders.

Solution-B: preference shares (equity) and dividends not declared

Profit after tax
Less: Preference dividends on irredeemable shares
Earnings attributable to ordinary shareholders

Rs.
100,000
(0)
100,000

Comment: If there is no obligation to pay the dividend (i.e. the preference dividend is both non-cumulative and not declared) the dividend will not be recognised in the financial statements at all. No adjustment is made to the profit for the period, all the profit belongs to the ordinary shareholders.

Solution-C: preference shares (liability) and declared dividends

Profit after tax
Less: Preference dividends on irredeemable shares
Earnings attributable to ordinary shareholders

Rs.
100,000
(0)
100,000

Comment: Preference shares that are cumulative and redeemable are treated as liabilities. The dividends on these preference shares are therefore recognised as interest. This dividend has therefore already been deducted in calculating the profit for the period.

Solution-D: preference shares (liability) and dividends not declared

Profit after tax
Less: Preference dividends on irredeemable shares
Earnings attributable to ordinary shareholders

Rs.
100,000
(0)
100,000

Comment: Preference shares that are cumulative and redeemable are treated as liabilities. The dividends on these preference shares are therefore recognised as interest, irrespective of whether or not the dividend has been formally declared. This dividend should therefore already been deducted in calculating the profit for the period.

Weighted average number of shares

The number of shares to be used in the calculation being the weighted average number of shares in issue during the period. Changes in share capital during a period must be taken into account in arriving at this number. IAS 33 provides guidance on how to do this.

There are different ways in which the number of shares may change:

- Issue of shares at full market price
- Issue of shares for no consideration (Bonus issue)
- Right issue
- Share split (where one share is split into several others)
- Share consolidation (where two or more shares are consolidated into one)

LO3: ISSUE OF SHARES AT FULL MARKET PRICE

The consideration received is available to boost earnings. Therefore, the shares are included from the date of issue to ensure consistency between the numerator (top) and denominator (bottom) of the EPS calculation.

The starting point for the weighted average number of shares is the number of shares in issue at the beginning of the period. This is then adjusted for any shares issued during the period and a time weighting factor must then be applied to each figure.

There is no adjustment to comparatives resulting from an issue at full price.

Question-1

Gilani & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

Total earnings in the year ending 31 December 2016 were Rs. 80,000.

Required

Calculate the Basic Earnings per share for the year ended 31 December 2016.

Answer-1

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

2016

$$\text{EPS} = \frac{80,000}{10,000}$$

= 8 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
1 January to 31 December	10,000	x 12/12	10,000

Question-2

Kamran & Co., a listed company, has a financial year ending 31 March.

On 1 April 2015, there were 15,000 shares in issue.

Total earnings in the year ending 31 March 2016 were Rs. 200,000.

Required

Calculate the Basic Earnings per share for the year ended 31 March 2016.

Answer-2

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

2016

$$\text{EPS} = \frac{200,000}{15,000}$$

= 13.33 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
1 April to 31 March	15,000	x 12/12	15,000

Question-3 (New issue at start of year full market price)

Gohan & Co., a listed company, has a financial year ending 30 June.

On 1 July 2015, there were 56,000 shares in issue.

On 1 July 2015, Gohan & Co. issued 45,000 new shares at full market price.

Total earnings in the year ending 30 June 2016 were Rs. 1,500,000.

Total earnings in the year ending 30 June 2015 were Rs. 900,000.

Required

Calculate the Basic Earnings per share for the year ended 30 June 2016 & 2015.

Answer-3

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

2016

$$\begin{aligned} \text{EPS} &= \frac{1,500,000}{101,000} \\ &= 14.85 \text{ per share} \end{aligned}$$

2015

$$\begin{aligned} \text{EPS} &= \frac{900,000}{56,000} \\ &= 16.07 \text{ per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 July 2015	56,000		
New Shares Issued on 1 July 2015	45,000		
1 July to 30 June	101,000	x 12/12	101,000

Question-4 (New issue at mid of year at full market price)

Goten & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 April 2016, Goten & Co. issued 10,000 new shares at full market price.

Total earnings in the year ending 31 December 2016 were Rs. 140,000.

Total earnings in the year ending 31 December 2015 were Rs. 80,000.

Required

Calculate the Basic Earnings per share for the year ended 31 December 2016 & 2015.

Answer-4

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

2016

$$\text{EPS} = \frac{140,000}{17,500}$$

= Rs. 8 per share

2015

$$\text{EPS} = \frac{80,000}{10,000}$$

= Rs. 8 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 3/12	2,500
New Shares Issued on 1 April	10,000		
	<u>20,000</u>	x 9/12	<u>15,000</u>
			17,500

Question-5 (New issue at mid of year at full market price)

Gojeeta & Co., a listed company, has a financial year ending 30 June.

On 1 July 2015, there were 28,000 shares in issue.

On 1 April 2016, Gojeeta & Co. issued 6,000 new shares at full market price.

Total earnings in the year ending 30.06.16 were Rs.150,000.

Total earnings in the year ending 30.06.15 were Rs.75,000.

Required:

Calculate the Basic Earnings per share for the year ended 30 June 2016 & 2015.

Answer-5

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

2016

$$\text{EPS} = \frac{150,000}{29,500}$$

= Rs. 5.1 per share

2015

$$\text{EPS} = \frac{75,000}{28,000}$$

= Rs. 2.7 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 July	28,000	x 9/12	21,000
New issued shares (1 April to 30 June)	6,000		
	<u>34,000</u>	x 3/12	<u>8,500</u>
			29,500

Question-6 (New issue at mid of year at full market price twice)

Vegeta & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 March 2016, Vegeta & Co. issued 2,000 new shares at full market price.

On 1 October 2016, Vegeta & Co. issued 5,000 further new shares at full market price.

Total earnings in the year ending 31 December 2016 were Rs. 200,000.

Total earnings in the year ending 31 December 2015 were Rs. 80,000.

Required

Calculate the Basic Earnings per share for the year ended 31 December 2016 & 2015.

Answer-6

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

2016

EPS = $\frac{200,000}{12,917}$
= Rs. 15.5 per share

2015

EPS = $\frac{80,000}{10,000}$
= Rs. 8 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	x 2/12	1,667
New Shares Issued on 1 March	2,000		
	<u>12,000</u>	x 7/12	<u>7,000</u>
New Shares Issued on 1 October	5,000		
	<u>17,000</u>	x 3/12	<u>4,250</u>
			12,917

Question-7 (New issue at mid of year at full market price twice)

Trunks & Co., a listed company, has a financial year ending 30 September.

On 1 October 2015, there were 47,000 shares in issue.

On 1 March 2016, Trunks & Co. issued 28,000 new shares at full market price.

On 1 July 2016, Trunks & Co. issued 5,000 further new shares at full market price.

Total earnings in the year ending 30 September 2016 were Rs. 2,500,000.

Total earnings in the year ending 30 September 2015 were Rs. 1,500,000.

Required

Calculate the Basic Earnings per share for the year ended 30 September 2016 & 2015.

Answer-7

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

2016

EPS = $\frac{2,500,000}{64,583}$
= Rs. 38.7 per share

2015

EPS = $\frac{1,500,000}{47,000}$
= Rs. 31.9 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 October	47,000	x 5/12	19,583
New issued shares on 1 March	28,000		
	75,000	x 4/12	25,000
New issued shares on 1 July	5,000		
	80,000	x 3/12	20,000
			<u>64,583</u>

LO4: BONUS ISSUE OF SHARES

A bonus issue of shares (also called a "scrip issue" or a "capitalisation issue" or "stock dividend") is an issue of new shares to existing shareholders, in proportion to their existing shareholding, for no consideration. In other words, the new shares are issued 'free of charge' to existing shareholders.

No cash is raised from a bonus issue, therefore is no earnings boost from the issue. Bonus issued shares are treated as if they have always been in issue.

The new number of shares (i.e. the number of shares after the bonus issue) can be found by multiplying the number of shares before the bonus issue by the bonus issue fraction.

The bonus issue fraction is

Formula: Bonus issue fraction

Number of shares in holding after the bonus issue

Number of shares in holding before the bonus issue

Example: Bonus fraction

A company has 4,000,000 shares in issue.

It made a 1 for 4 bonus issue (25%)

Required

Calculate the number of shares in issue after the bonus issue.

Solution:

Number of shares in issue after the bonus issue: $4,000,000 \times \frac{5}{4} = 5,000,000$

(W-1)

Before

New

After

Bonus Issue

4

1

5

Note: Comparatives are restated in respect of bonus issue.

Question-8 (Bonus issue at mid of year)

Nobita & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 March 2016, Nobita & Co. made a bonus issue to existing shareholders of 1 new share for every 2 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 70,000.

Total earnings in the year ending 31 December 2015 were Rs. 70,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-8

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS

=

$\frac{70,000}{10,000}$

=

Rs. 7 per share

2) 2016

EPS

=

$\frac{70,000}{15,000}$

=

Rs. 4.67 per share

2015 (Restated)

EPS

=

7 x Reciprocal of Bonus Fraction

=

$7 \times \frac{2}{3}$

=

Rs. 4.67 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 2/12 \times 3/2$	2,500
Bonus shares issued on 1 March 2016 (10,000/2 x 1)	5,000		
	15,000	$\times 10/12$	12,500
			15,000

(W-2)

Before	Bonus Issue
New	2
After	1
	3

Question-9 (Bonus issue at mid of year)

Gotrunks & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 97,000 shares in issue.

On 1 March 2016, Gotrunks & Co. made a bonus issue to existing shareholders of 7 new share for every 12 shares held.

Total earnings in the year ending 30 November 2016 were Rs. 2,570,000.

Total earnings in the year ending 30 November 2015 were Rs. 2,570,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 30 November 2015.
- 2) Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Answer-9

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015	
EPS	= $\frac{2,570,000}{97,000}$
	= Rs. 26.49 per share
2) 2016	
EPS	= $\frac{2,570,000}{153,583}$
	= Rs. 16.7 per share
2015 (Restated)	
EPS	= 26.49 x Reciprocal of Bonus Fraction
	= $26.49 \times 12/19$
	= Rs. 16.7 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 December	97,000	$\times \frac{3}{12} \times \frac{19}{12}$	38,396
Bonus shares issued on 1 March 2016 ($97,000/12 \times 7$)	56,583		
1 March to 30 November	153,583	$\times \frac{9}{12}$	115,187
			153,583

(W-2)

Before
New
After

Bonus Issue
12
7
19

Question-10 (Bonus issue at mid of year)

Mian Shaoib & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 July 2016, Mian Shaoib & Co. made a bonus issue to existing shareholders of 1 new share for every 2 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 50,000.

Total earnings in the year ending 31 December 2015 were Rs. 50,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-10

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

- 1) 2015
EPS = $\frac{50,000}{10,000}$
Rs. 5 per share
- 2) 2016
EPS = $\frac{50,000}{15,000}$
Rs. 3.33 per share

2015 (Restated)

- EPS = $5 \times \text{Reciprocal of Bonus Fraction}$
= $5 \times \frac{2}{3}$
= Rs. 3.33 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 6/12 \times 3/2$	7,500
Bonus shares issued on 1 July 2016 $(10,000/2 \times 1)$	5,000		
	15,000	$\times 6/12$	7,500
			15,000

(W-2)

Before	Bonus Issue
New	2
After	1
	3

Question-11 (Bonus issue at mid of year)

Daud Hassan & Co., a listed company, has a financial year ending 31 July.

On 1 August 2015, there were 1,600 shares in issue.

On 1 January 2016, Daud Hassan & Co. made a bonus issue to existing shareholders of 17 new share for every 21 shares held.

Total earnings in the year ending 31 July 2016 were Rs. 254,800.

Total earnings in the year ending 31 July 2015 were Rs. 151,200.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 July 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 July 2016 along with comparatives.

Answer-11

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015 EPS	=	$\frac{151,200}{1,600}$
	=	Rs. 94.5 per share
2) 2016 EPS	=	$\frac{254,800}{2,895}$
	=	Rs. 88.01 per share
2015 (Restated) EPS	=	$94.5 \times \text{Reciprocal of Bonus Fraction}$
	=	$94.5 \times 21/38$
	=	Rs. 52.22 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 August	1,600	$\times 5/12 \times 38/21$	1206
Bonus shares issued on 1 January 2016 $(1,600/21 \times 17)$	1295		
	2,895	$\times 7/12$	1,689
			2,895

Bonus Issue
21
17
38

(W-2)

Before
New
After

Question-12 (Bonus issue at mid of year twice)

Rauf & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 March 2016, Rauf & Co. made a bonus issue to existing shareholders of 1 new share for every 2 shares held.

On 1 October 2016, Ali & Co. made a bonus issue to existing shareholders of 2 new shares for every 5 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 50,000.

Total earnings in the year ending 31 December 2015 were Rs. 50,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-12

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

$$\begin{aligned} 1) \quad 2015 \text{ EPS} &= \frac{50,000}{10,000} \\ &= \text{Rs. 5 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \text{ EPS} &= \frac{50,000}{21,000} \\ &= \text{Rs. 2.38 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated) EPS} &= 5 \times \text{Reciprocal of Bonus Fractions} \\ &= 5 \times \frac{2}{3} \times \frac{5}{7} \\ &= \text{Rs. 2.38 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times \frac{2}{12} \times \frac{3}{2} \times \frac{7}{5}$	3,500
Bonus shares issued on 1 March (10,000/2 x 1)	5,000		
	15,000	$\times \frac{7}{12} \times \frac{7}{5}$	12,250
Bonus shares issued on 1 October (15,000/5 x 2)	6,000		
	21,000	$\times \frac{3}{12}$	5,250
			<u>21,000</u>

(W-2)

	Bonus Issue	Bonus issue
Before	2	5
New	1	2
After	3	7

Question-13 (Bonus issue at mid of year twice)

Doremon & Co., a listed company, has a financial year ending 31 May.

On 1 June 2015, there were 987,500 shares in issue.

On 1 December 2015, Doremon & Co. made a bonus issue to existing shareholders of 6 new share for every 8 shares held.

On 1 March 2016, Doremon & Co. made a bonus issue to existing shareholders of 1 new shares for every 9 shares held.

Total earnings in the year ending 31 May 2016 were Rs. 7,560,000.

Total earnings in the year ending 31 May 2015 were Rs. 5,856,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 May 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 May 2016 along with comparatives.

Answer-13

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

$$\begin{aligned}
 1) \quad 2015 \\
 \text{EPS} &= \frac{5,856,000}{987,500} \\
 &= \text{Rs. 5.93 per share}
 \end{aligned}$$

$$\begin{aligned}
 2) \quad 2016 \\
 \text{EPS} &= \frac{7,560,000}{1,920,139} \\
 &= \text{Rs. 3.93 per share}
 \end{aligned}$$

$$\begin{aligned}
 2015 \text{ (Restated)} \\
 \text{EPS} &= 5.93 \times \text{Reciprocal of Bonus Fractions} \\
 &= 5.93 \times 8/14 \times 9/10 \\
 &= \text{Rs. 3.05 per share}
 \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 June	987,500	$\times 6/12 \times 14/8 \times 10/9$	960,069
Bonus shares issued on 1 December (987,500/8 x 6)	740,625		
	1,728,125	$\times 3/12 \times 10/9$	480,035
Bonus shares issued on 1 March (1,728,125/9 x 1)	192,014		
	1,920,139	$\times 3/12$	480,035
			<u>1,920,139</u>

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(W-2)

Before
New
After

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Bonus Issue	Bonus Issue
8	9
6	1
14	10

Question-14 (New shares issue at full market price + Bonus issue at mid of year)
Naruto & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 April 2016, Naruto & Co. issued 2,000 new shares at full market price.

On 1 September 2016, Naruto & Co. made a bonus issue to existing shareholders of 3 new shares for every 8 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 100,000.

Total earnings in the year ending 31 December 2015 were Rs. 100,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-14

Earnings per share

= $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

$$\begin{aligned} 1) \quad 2015 \text{ EPS} &= \frac{100,000}{10,000} \\ &= \text{Rs. 10 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \text{ EPS} &= \frac{100,000}{15,813} \\ &= \text{Rs. 6.3 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated) EPS} &= 10 \times \text{Reciprocal of Bonus Fractions} \\ &= 10 \times 8/11 \\ &= \text{Rs. 7.3 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 3/12 \times 11/8$	3,438
New issued shares on 1 April 2016	2,000		
	12,000	$\times 5/12 \times 11/8$	6,875
Bonus shares issued on 1 September (12,000/8 x 3)	4,500		5,500
	16,500	$\times 4/12$	15,813

(W-2)

Before
New
After

Bonus Issue
8
3
11

Question-15 (New shares issue at full market price + Bonus issue at mid of year)

Sasku & Co., a listed company, has a financial year ending 31 October.

On 1 November 2015, there were 254,865 shares in issue.

On 1 March 2016, Sasku & Co. issued 23,296 new shares at full market price.

On 1 September 2016, Sasku & Co. made a bonus issue to existing shareholders of 13 new shares for every 31 shares held.

Total earnings in the year ending 31 October 2016 were Rs. 29,605,000.

Total earnings in the year ending 31 October 2015 were Rs. 10,568,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 October 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 October 2016 along with comparatives.

Answer-15

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015		
EPS	=	$\frac{10,568,000}{254,865}$
	=	Rs. 41.5 per share.
2) 2016		
EPS	=	$\frac{29,605,000}{383,788}$
	=	Rs. 77.14 per share
2015 (Restated)		
EPS	=	41.5 x Reciprocal of Bonus Fractions
	=	41.5 x 31/44
	=	Rs. 29.24 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 November	254,865	x 4/12 x 44/31	120,581
New issued shares on 1 March 2016	23,296		
	278,161	x 6/12 x 44/31	197,405
Bonus shares issued on 1 September (278,161/31 x 13)	116,648		
	394,809	x 2/12	65,802
			<u>383,788</u>

(W-2)

Before
New
After

Question-16 (Bonus issue + new shares issue at full market price at ...
Kakashi & Co., a listed company, has a financial year ending 31 December.
On 1 January 2016, there were 10,000 shares in issue.
On 1 February 2016, Kakashi & Co. made a bonus issue to existing shareholders of 3 new shares for every 4 shares held.
On 1 August 2016, Kakashi & Co. issued 3,000 new shares at full market price.
Total earnings in the year ending 31 December 2016 were Rs. 300,000.
Total earnings in the year ending 31 December 2015 were Rs. 170,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-16

Earnings per share

$$\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

$$\begin{aligned} 1) \quad 2015 \text{ EPS} &= \frac{170,000}{10,000} \\ &= \text{Rs. 17 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \text{ EPS} &= \frac{300,000}{18,750} \\ &= \text{Rs. 16 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated) EPS} &= 17 \times \text{Reciprocal of Bonus Fractions} \\ &= 17 \times 4/7 \\ &= \text{Rs. 9.7 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 1/12 \times 7/4$	1,458
Bonus shares issued on 1 February (10,000/4 x 3)	7,500		
	17,500	$\times 6/12$	8,750
New shares issued on 1 August 2016	3,000		
	20,500	$\times 5/12$	8,542
			<u>18,750</u>

(W-2)

Before
New
After

Bonus Issue
4
3
7

Question-17 (Bonus issue + new shares issue at full market price at mid of year)

Bashar & Co., a listed company, has a financial year ending 31 January.

On 1 February 2015, there were 158,990 shares in issue.

On 1 April 2015, Bashar & Co. made a bonus issue to existing shareholders of 7 new shares for every 19 shares held.

On 1 September 2015, Bashar & Co. issued 19,450 new shares at full market price.

Total earnings in the year ending 31 January 2016 were Rs. 9,560,650.

Total earnings in the year ending 31 January 2015 were Rs. 5,461,165.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 January 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 January 2016 along with comparatives.

Answer-17

Earnings per share	=	<u>Earnings attributable to ordinary shareholders during a period</u> <u>Weighted average number of shares in issue during the period</u>
1) 2015		
EPS	=	$\frac{5,461,165}{158,990}$
	=	Rs. 34.35 per share
2) 2016		
EPS	=	$\frac{9,560,650}{225,669}$
	=	Rs. 42.37 per share
2015 (Restated)		
EPS	=	34.35 x Reciprocal of Bonus Fractions
	=	$34.35 \times \frac{19}{26}$
	=	Rs. 25.10 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 February	158,990	$\times \frac{2}{12} \times \frac{26}{19}$	36,261
Bonus shares issued on 1 April $(158,990/19 \times 7)$	58,575		
	217,565	$\times \frac{5}{12}$	90,652
New shares issued on 1 September 2015	19,450		
	237,015	$\times \frac{5}{12}$	98,756
			<u>225,669</u>

CHAPTER-08

(W-2)

Before
New
After

Bonus Issue
19
7
26

LO5: RIGHT ISSUE OF SHARES

A right issue of shares is an issue of new shares for cash, where the new shares are offered initially to current shareholders in proportion to their existing shareholdings. The issue price of the new shares in a rights issue is always below the current market price for the shares already in issue. This means that they include a bonus element which must be taken into account in the calculation of the weighted average number of shares. Also note that any comparatives must be restated by multiplying them by the inverse of the rights issue bonus fraction.

The rights issue bonus fraction is calculated as follows:

Formula: Rights issue bonus issue fraction

$\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$

The actual cum-rights price is the market price of the shares before the rights issue.

The theoretical ex-rights price is the price that the shares ought to be, in theory, after the rights issue. It is a weighted average price of the shares before the rights issue and the new shares in the rights issue.

The calculation of the theoretical ex rights price looks a little complicated at first but it is always done this way. This is demonstrated in the following example.

Question-18 (Right issue at mid of year)

Momin & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 November 2016, Momin & Co. made a Rights issue to existing shareholders of 3 new shares for every 5 shares held at the price of Rs. 4. The market price of shares just before the rights issue was Rs. 10.

Total earnings in the year ending 31 December 2016 were Rs. 150,000.

Total earnings in the year ending 31 December 2015 were Rs. 80,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-18

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

- 1) 2015
EPS = $\frac{80,000}{10,000}$
= Rs. 8 per share

2) 2016		
EPS	=	$\frac{150,000}{13,420}$
	=	Rs. 11.18 per share
2015 (Restated)		
EPS	=	8 x Reciprocal of Bonus Fraction
	=	$8 \times 7.75/10$
	=	Rs. 6.2 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 10/12 \times 10/7.75$	10,753
Right shares issued on 1 November 2016 ($10,000/5 \times 3$)	6,000		
	16,000	$\times 2/12$	2,667
			<u>13,420</u>

(W-2) Right issue bonus Fraction

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= 10/7.75$$

Theoretical ex-right price

		Rs.
Before	(5 x Rs.10)	50
New	(3 x Rs. 4)	12
After	(8 x Rs 7.75 (bal.))	<u>62</u>

Question-19 (Right issue at mid of year)

Rudaba & Co., a listed company, has a financial year ending 29 February.

On 1 March 2015, there were 2,658,550 shares in issue.

On 1 December 2015, Rudaba & Co. made a Rights issue to existing shareholders of 13 new shares for every 63 shares held at the price of Rs. 25. The market price of shares just before the rights issue was Rs. 64.

Total earnings in the year ending 29 February 2016 were Rs. 8,545,000.

Total earnings in the year ending 28 February 2015 were Rs. 5,561,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 28 February 2015.
- 2) Calculate the Basic Earnings per share for the year ended 29 February 2016 along with comparatives.

Answer-19

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

$$\begin{aligned} 1) \quad 2015 \text{ EPS} &= \frac{5,561,000}{2,658,550} \\ &= \text{Rs. 2.09 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \text{ EPS} &= \frac{8,545,000}{3,028,066} \\ &= \text{Rs. 2.82 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated) EPS} &= 2.09 \times \text{Reciprocal of Right issue bonus Fraction} \\ &= 2.09 \times 57.32/64 \\ &= \text{Rs. 1.87 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 March	2,658,550	$\times 9/12 \times 64/57.32$	2,226,281
Right shares issued on 1 December (2,658,550/63 x 13)	548,590		
	3,207,140	$\times 3/12$	801,785
			3,028,066

(W-2) Right issue bonus Fraction

$$\begin{aligned} &= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}} \\ &= 64/57.32 \end{aligned}$$

Theoretical ex-right price		Rs.
Before	(63 x Rs.64)	4,032
New	(13 x Rs. 25)	325
After	(76 x 57.32 (bal))	4,357

Question-20 (Right issue at mid of year twice)

Boland & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 May 2016, Boland & Co. made a Rights issue to existing shareholders of 2 new shares for every 3 shares held at the price of Rs. 7. The market price of shares immediately before the rights issue was Rs. 10.

On 1 August 2016, Boland & Co. made a Rights issue to existing shareholders of 3 new shares for every 5 shares held at the price of Rs. 8. The market price of shares just before the rights issue was Rs. 12.

Total earnings in the year ending 31 December 2016 were Rs. 200,000.

Total earnings in the year ending 31 December 2015 were Rs. 120,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-20

Earnings per share =
$$\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

$$\begin{aligned} 1) \quad 2015 \\ \text{EPS} &= \frac{120,000}{10,000} \\ &= \text{Rs. 12 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \\ \text{EPS} &= \frac{200,000}{20,202} \\ &= \text{Rs. 9.9 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated)} \\ \text{EPS} &= 12 \times \text{Reciprocal Right Issue of Bonus Fraction} \\ &= 12 \times 8.8/10 \times 10.5/12 \\ &= \text{Rs. 9.24 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 4/12 \times 10/8.8 \times 12/10.5$	4,329
Right shares issued on 1 May 2016 (10,000/3 x 2)	6,667		
	16,667	$\times 3/12 \times 12/10.5$	4,762
Right shares issued on 1 August 2016 (16,667/5 x 3)	10,000		
	26,667	$\times 5/12$	11,111
			<u>20,202</u>

(W-2) Right issue bonus Fraction (Issued on 1 May)

$$\begin{aligned} &= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}} \\ &= 10/8.8 \end{aligned}$$

Theoretical ex-right price

		Rs.
Before	(3 x Rs.10)	30
New	(2 x Rs. 7)	14
After	(5 x Rs 8.8 (bal))	<u>44</u>

(W-3) Right issue bonus Fraction (Issued on 1 August)

$$\begin{aligned} &= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}} \\ &= 12/10.5 \end{aligned}$$

Theoretical ex-rights price

Before	(5 x Rs.12)	Rs.
New	(3 x Rs. 8)	60
After	(8 x Rs 10.5 (bal))	24
		84

Question-21 (Right issue at mid of year twice)

Dragon & Co., a listed company, has a financial year ending 30 September.

On 1 October 2015, there were 157,000 shares in issue.

On 1 March 2016, Dragon & Co. made a Rights issue to existing shareholders of 16 new shares for every 33 shares held at the price of Rs. 14. The market price of shares immediately before the rights issue was Rs. 25.

On 1 August 2016, Dragon & Co. made a Rights issue to existing shareholders of 8 new shares for every 15 shares held at the price of Rs. 18. The market price of shares just before the rights issue was Rs. 40.

Total earnings in the year ending 30 September 2016 were Rs. 1,589,564.

Total earnings in the year ending 30 September 2015 were Rs. 895,644.

Required

- 1) Calculate the Basic Earnings per share for the year ended 30 September 2015.
- 2) Calculate the Basic Earnings per share for the year ended 30 September 2016 along with comparatives.

Answer-21

Earnings per share	=	<u>Earnings attributable to ordinary shareholders during a period</u> <u>Weighted average number of shares in issue during the period</u>
1) 2015		
EPS	=	$\frac{895,644}{157,000}$
	=	Rs. 5.7 per share
2) 2016		
EPS	=	$\frac{1,589,564}{274,128}$
	=	Rs. 5.8 per share
2015 (Restated)		
EPS	=	5.7 x Reciprocal Right issue of bonus Fraction
	=	5.7 x 21.41/25 x 32.35/40
	=	Rs. 3.95 per share



(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 October	157,000	$\times \frac{5}{12} \times \frac{25}{21.41} \times \frac{40}{32.35}$	94,449
Right shares issued on 1 March 2016 $(157,000/33 \times 16)$	76,121		
Right shares issued on 1 August 2016 $(233,121/15 \times 8)$	124,331	$\times \frac{5}{12} \times \frac{40}{32.35}$	120,104
	357,452	$\times \frac{2}{12}$	59,573
			274,128

(W-2) Right issue bonus Fraction (Issued on 1 March)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= \frac{25}{21.41}$$

Theoretical ex-rights price

		Rs.
Before	(33 x Rs.25)	825
New	(16 x Rs. 14)	224
After	(49 x Rs 21.41(bal))	1049

(W-3) Right issue bonus Fraction (Issued on 1 August)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= \frac{40}{32.35}$$

Theoretical ex-rights price

		Rs.
Before	(15 x Rs.40)	600
New	(8 x Rs. 18)	144
After	(23 x Rs 32.32 (bal))	744

Question-22 (New issue at full market price + Right issue at mid of the year)

Ball & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 May 2016, Ball & Co. issued 5,000 new shares at full market price.

On 1 November 2016, Ball & Co. made a Rights issue to existing shareholders of 1 new share for every 3 shares held at the price of Rs. 4. The market price of shares immediately before the rights issue was Rs.7.

Total earnings in the year ending 31 December 2016 were Rs. 150,000.

Total earnings in the year ending 31 December 2015 were Rs. 160,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.



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Answer-22

Earnings per share

$$= \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

$$\begin{aligned} 1) \quad 2015 \text{ EPS} &= \frac{160,000}{10,000} \\ &= \text{Rs. 16 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \text{ EPS} &= \frac{150,000}{15,466} \\ &= \text{Rs. 9.69 per share} \end{aligned}$$

2015 (Restated)
EPS

$$\begin{aligned} &= 16 \times \text{Reciprocal of Right issue bonus Fraction} \\ &= 16 \times 6.25/7 \\ &= \text{Rs. 14.3 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 4/12 \times 7/6.25$	3,733
New shares issued on 1 May 2016	5,000		
	15,000	$\times 6/12 \times 7/6.25$	8,400
	5,000		
Rights share issue on 1 November 2016 (15,000/3 x 1)	20,000	$\times 2/12$	3,333
			15,466

(W-2) Right issue bonus Fraction (Issued on 1 November)

$$\begin{aligned} &= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}} \\ &= 7/6.25 \end{aligned}$$

Theoretical ex-rights price

Before	(3 x Rs.7)	
New	(1 x Rs. 4)	
After	(4 x Rs 6.25 (bal))	

Rs.

21

4

25

Question-23 (New issue at full market price + Right issue at mid of the year)

Super & Co., a listed company, has a financial year ending 30 April.

On 1 May 2015, there were 29,564 shares in issue.

On 1 July 2015, Super & Co. issued 7,820 new shares at full market price.

On 1 January 2016, Super & Co. made a Rights issue to existing shareholders of 7 new share for every 29 shares held at the price of Rs. 15. The market price of shares immediately before the rights issue was Rs.68.

Total earnings in the year ending 30 April 2016 were Rs. 7,950,000.

Total earnings in the year ending 30 April 2015 were Rs. 1,268,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 30 April 2015.
- 2) Calculate the Basic Earnings per share for the year ended 30 April 2016 along with comparatives.

Answer-23

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015
EPS = $\frac{1,268,000}{29,564}$
Rs. 42.89 per share

2) 2016
EPS = $\frac{7,950,000}{43,310}$
Rs. 183.56 per share

2015 (Restated)
EPS = $42.89 \times \text{Reciprocal of Right issue bonus Fraction}$
= $42.89 \times 57.69/68$
= Rs. 36.39 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 May	29,564		
New shares issued on 1 June 2015	7,820	$\times 2/12 \times 68/57.69$	5,808
	<u>37,384</u>		
Rights share issue on 1 January 2016 $(37,384/29 \times 7)$	9,024	$\times 6/12 \times 68/57.69$	22,033
	<u>46,408</u>		
		$\times 4/12$	15,469
			<u>43,310</u>

(W-2) Right issue bonus Fraction (Issued on 1 January)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= \frac{68}{57.69}$$

Theoretical ex-rights price

		Rs.
Before	(29 x Rs.68)	
New	(7 x Rs. 15)	1,972
After	(36 x Rs. 57.69 (bal))	<u>105</u>
		2,077

Question-24 (Right issue + new issue at full market price at mid of the year)

King Kai & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 August 2016, King Kai & Co. made a Rights issue to existing shareholders of 2 new shares for every 4 shares held at the price of Rs. 5. The market price of shares immediately before the rights issue was Rs.9.

On 1 October 2016, King Kai & Co. issued 8,000 new shares at full market price.

Total earnings in the year ending 31 December 2016 were Rs. 110,000.

Total earnings in the year ending 31 December 2015 were Rs. 90,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-24

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

$$\begin{aligned} 1) \quad 2015 \\ \text{EPS} &= \frac{90,000}{10,000} \\ &= \text{Rs. 9 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \\ \text{EPS} &= \frac{110,000}{15,068} \\ &= \text{Rs. 7.3 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated)} \\ \text{EPS} &= 9 \times \text{Reciprocal of Bonus Fraction} \\ &= 9 \times 7.7/9 \\ &= \text{Rs. 7.7 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 7/12 \times 9/7.7$	6,818
Rights share issue on 1 August 2016 (10,000/4 x 2)	5,000		
	15,000	$\times 2/12$	2,500
New Shares issued on 1 October 2016	8,000		
	23,000	$\times 3/12$	5,750
			<u>15,068</u>

(W-2) Right issue bonus Fraction (Issued on 1 August)

$$\begin{aligned} &= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}} \\ &= 9/7.7 \end{aligned}$$

Theoretical ex-rights price		Rs.
Before	(4 x Rs.9)	36
New	(2 x Rs. 5)	10
After	(6 x Rs. 7.7 (bal))	46

Question-25 (Right issue + new issue at full market price at mid of the year)

Devil Jin & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 1,564,583 shares in issue.

On 1 May 2016, Devil Jin & Co. made a Rights issue to existing shareholders of 9 new shares for every 25 shares held at the price of Rs. 120. The market price of shares immediately before the rights issue was Rs.250.

On 1 August 2016, Devil Jin & Co. issued 86,425 new shares at full market price.

Total earnings in the year ending 30 November 2016 were Rs. 15,664,665.

Total earnings in the year ending 30 November 2015 were Rs. 8,555,485.

Required

- 1) Calculate the Basic Earnings per share for the year ended 30 November 2015.
- 2) Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Answer-25

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

$$\begin{aligned} 1) \quad 2015 \text{ EPS} &= \frac{8,555,485}{1,564,583} \\ &= \text{Rs. 5.47 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \text{ EPS} &= \frac{15,664,665}{2,026,004} \\ &= \text{Rs. 7.73 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated) EPS} &= 5.47 \times \text{Reciprocal of Right issue bonus Fraction} \\ &= 5.47 \times 215.59/250 \\ &= \text{Rs. 4.72 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 December	1,564,583	$\times 5/12 \times 250/215.59$	755,960
Rights share issue on 1 May 2016 $(1,564,583/25 \times 9)$	563,250		
	2,127,833	$\times 3/12$	531,958
New Shares issued on 1 August 2016	86,425		
	2,214,258	$\times 4/12$	738,086
			<u>2,026,004</u>

(W-2) Right issue bonus Fraction (Issued on 1 May)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= 250/215.59$$

Theoretical ex-rights price

Before

(25 x Rs.250)

New

(9 x Rs. 120)

After

(34 x Rs. 215.59 (bal))

Rs.

6,250

1,080

7,330

Question-26 (Right issue + Bonus issue at mid of the year)

Kazuya & Co., a listed company, has a financial year ending 31 December.

On 1 January 2016, there were 10,000 shares in issue.

On 1 April 2016, Kazuya & Co. made a Rights issue to existing shareholders of 4 new shares for every 5 shares held at the price of Rs. 2. The market price of shares just before the rights issue was Rs.3.

On 1 October 2016, Kazuya & Co. made a bonus issue to existing shareholders of 2 new shares for every 5 shares held.

Total earnings in the year ending 31 December 2016 were Rs. 120,000.

Total earnings in the year ending 31 December 2015 were Rs. 70,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-26

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015

EPS

=

70,000

10,000

=

Rs. 7 per share

2) 2016

EPS

=

120,000

22,938

=

Rs. 5.2 per share

2015 (Restated)

EPS

=

7 x Reciprocal of Bonus Fraction and Reciprocal of Right issue

=

7 x 2.6/3 x 5/7

=

Rs. 4.3 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times 3/12$	
Right shares issued on 1 April 2016 (10,000/5 \times 4)	8,000	$\times 3/2.6 \times 7/5$	4,038
Bonus shares issued on 1 October 2016 (18,000/5 \times 2)	18,000	$\times 6/12 \times 7/5$	12,600
	7,200		
	25,200	$\times 3/12$	6,300
			<u>22,938</u>

(W-2) Right issue bonus Fraction (Issued on 1 April)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= 3/2.6$$

Theoretical ex-rights price

		Rs.
Before	(5 \times Rs.3)	15
New	(4 \times Rs.2)	8
After	(9 \times Rs.2.6 (bal))	<u>23</u>

(W-3)

	Bonus Issue
Before	5
New	2
After	7

Question-27 (Right issue + Bonus issue at mid of the year)

Cchi Cchi Michi & Co., a listed company, has a financial year ending 31 October.

On 1 November 2015, there were 3,699,852 shares in issue.

On 1 March 2016, Cchi Cchi Michi & Co. made a Rights issue to existing shareholders of 57 new shares for every 120 shares held at the price of Rs.150. The market price of shares just before the rights issue was Rs.341.

On 1 October 2016, Cchi Cchi Michi & Co. made a bonus issue to existing shareholders of 1 new share for every 25 shares held.

Total earnings in the year ending 31 October 2016 were Rs. 25,255,461.

Total earnings in the year ending 31 October r 2015 were Rs. 14,715,914.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 October 2015.
- 2) Calculate the Basic Earnings per share for the year ended 31 October 2016 along with comparatives.

Answer-27

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

$$\begin{aligned} 1) \quad 2015 \\ \text{EPS} &= \frac{14,715,914}{3,699,852} \\ &= \text{Rs. 3.98 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \\ \text{EPS} &= \frac{25,255,461}{5,348,552} \\ &= \text{Rs. 4.72 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated)} \\ \text{EPS} &= 3.98 \times \text{Reciprocal of Right issue \& Bonus Fraction} \\ &= 3.98 \times 279.5/341 \times 25/26 \\ &= \text{Rs. 3.13 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 November	3,699,852	$\times 4/12 \times 341/279.5$	
Right shares issued on 1 March 2016 $(3,699,852/120 \times 57)$	1,757,430	$\times 26/25$	1,564.83
	5,457,282	$\times 7/12 \times 26/25$	3,310.73
Bonus shares issued on 1 October 2016 $(5,457,282/25 \times 1)$	218,291	$\times 1/12$	472.96
	5,675,573		5,348.55

(W-2) Right issue bonus Fraction (Issued on 1 March)

$$\begin{aligned} &= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}} \\ &= 341/279.5 \end{aligned}$$

Theoretical ex-rights price

		Rs.
Before	(120 x Rs.341)	40,920
New	(57 x Rs. 150)	8,550
After	(177 x Rs.279.5 (bal))	49,471.5

(W-3)

	Bonus Issue
Before	25
New	1
After	26

LO6: SHARE SPLIT

Share split is a situation where a share is subdivided into two or more shares. In EPS the treatment of share split is similar to the treatment of bonus shares.

Question-28 (Share split)

A company had 10,000 ordinary shares in issue during 2011. On 1 April 2012, 12,000 shares were issued at market value. On 1 June 2012, there was a "share split" whereby every 2 shares became 5 shares. The basic earnings were Rs. 150,000 in 2011 and Rs. 261,250 in 2012.

Required

- (1) Calculate the Basic Earnings per share for the year ended 31 December 2011.
- (2) Calculate the Basic Earnings per share for the year ended 31 December 2012 along with comparatives.

Answer-28

Note for students: "Every 2 shares became 5 shares" means that a shareholder who is in possession of 2 shares will get 3 new shares.

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2011 EPS	=	$\frac{150,000}{10,000}$
	=	Rs. 15 per share
2) 2012 EPS	=	$\frac{261,250}{47,500}$
	=	Rs. 5.5 per share
2011 (Restated) EPS	=	15 x Reciprocal of share split
	=	$15 \times \frac{2}{5}$
	=	Rs. 6 per share

(W-1) Weighted average number of shares during 2012

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000	$\times \frac{3}{12} \times \frac{5}{2}$	6,250
New issued shares on 1 April 2012	12,000		
	22,000	$\times \frac{2}{12} \times \frac{5}{2}$	9,167
	33,000		
Increase due to Share split on 1 June 2012 ($\frac{22,000}{2} \times 3$)	55,000	$\times \frac{7}{12}$	32,083
			<u>47,500</u>

(W-2)

	Share split
Before	2
New	3
After	5

Question-29

Ghani Ltd. which has a year end of 31st December, carried out a 3 for 2 share split arrangement on 30th June 2016.

Following information relates to Ghani Ltd.:

Ordinary Shares as on 1st January 2015 = 6,000,000

Earnings attributable to ordinary shareholders:

2015 = Rs.8,000,000

2016 = Rs.8,000,000

Required

1. Calculate the Basic Earnings per share for the year ended 31 December 2015.
2. Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-29

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015		
EPS	=	$\frac{8,000,000}{6,000,000}$
	=	Rs.1.33 per share
2) 2016		
EPS	=	$\frac{8,000,000}{9,000,000}$
	=	Rs.0.89 per share
2015 (Restated)		
EPS	=	1.33 x Reciprocal of share split
	=	1.33 x 2/3
	=	Rs.0.89 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January 2016	6,000,000	x 6/12 x 3/2	4,500,000
Increase due to Share split on 30 June 2016 (6,000,000/2 x 1)	3,000,000		
	9,000,000	x 6/12	4,500,000
			<u>9,000,000</u>

(W-2)

	Share split
Before	2
New	1
After	3

Question-30

A company had 269,000 ordinary shares in issue during 2015. On 1 September 2016, 96,000 shares were issued at market value. On 1 November 2016, there was a share split whereby every 3 shares became 7 shares. The basic earnings were Rs. 1,500,000 in 2015 and Rs. 3,612,500 in 2016.

Required

1. Calculate the Basic Earnings per share for the year ended 31 December 2015.
2. Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-30

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

$$\begin{aligned} 1) \quad 2015 \text{ EPS} &= \frac{1,500,000}{269,000} \\ &= \text{Rs. 5.58 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \text{ EPS} &= \frac{3,612,500}{702,333} \\ &= \text{Rs. 5.14 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated) EPS} &= 5.58 \times \text{Reciprocal of share split} \\ &= 5.58 \times 3/7 \\ &= \text{Rs. 2.39 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January 2016	269,000	$\times 8/12 \times 7/3$	418,444
New issued shares on 1 September 2016	96,000		
	365,000	$\times 2/12 \times 7/3$	141,944
Increase due to Share split on 1 November 2016 ($365,000/3 \times 4$)	486,667		
	851,667	$\times 2/12$	141,945
			<u>702,333</u>

(W-2)

	Share split
Before	3
New	4
After	7

LO7: SHARE CONSOLIDATION (REVERSE SHARE SPLIT)

A share consolidation is the combination of 2 or more shares into 1. It is reverse of split. The treatment is very similar to that of a split with the exception that the number of shares involved is subtracted rather than added.

Question-31 (Share consolidation)

A company had 12,000 ordinary shares in issue during 20X2.

On 1 November 20X3, the company consolidated its shares such that every 3 shares were consolidated into 1 share.

The basic earnings in 20X2 were Rs. 24,000 and Rs. 24,000 in 20X3.

Answer-31

Note for students: "Every 3 shares were consolidated into 1 share" means that a shareholder who is in possession of 3 shares will lose 2 old shares.

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 20X2		
EPS	=	$\frac{24,000}{12,000}$
	=	Rs. 2 per share
2) 20X3		
EPS	=	$\frac{24,000}{4,000}$
	=	Rs. 6 per share
20X2 (Restated)		
EPS	=	2 x Reciprocal of share consolidation
	=	2 x 3/1
	=	Rs. 6 per share

(W-1) Weighted average number of shares during 20X3

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	12,000	$\times 10/12 \times 1/3$	3,333
Reduction due to Share consolidation on 1.11.20X3 $(12,000/3 \times 2)$	(8,000)		
	4,000	$\times 2/12$	667
			<u>4,000</u>

(W-2)

	Share consolidation
Before	3
Loss	(2)
After	1

Question-32

ABC Ltd. which has a year end of 31st December, carried out a 2 for 3 share consolidation arrangement on 30th June 2016.

Following information relates to ABC Ltd.:

Ordinary Shares as on 1st January 2015 = 6,000,000

Earnings attributable to ordinary shareholders:

2015 = Rs.4,000,000

2016 = Rs.4,000,000

Required

1. Calculate the Basic Earnings per share for the year ended 31 December 2015.
2. Calculate the Basic Earnings per share for the year ended 31 December 2016 along with comparatives.

Answer-32

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

$$\begin{aligned} 1) \quad 2015 \text{ EPS} &= \frac{4,000,000}{6,000,000} \\ &= \text{Rs.0.667 per share} \end{aligned}$$

$$\begin{aligned} 2) \quad 2016 \text{ EPS} &= \frac{4,000,000}{4,000,000} \\ &= \text{Rs.1 per share} \end{aligned}$$

$$\begin{aligned} 2015 \text{ (Restated) EPS} &= 0.667 \times \text{Reciprocal of share consolidation} \\ &= 0.667 \times \frac{3}{2} \\ &= \text{Rs.1 per share} \end{aligned}$$

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January 2016	6,000,000	$\times \frac{6}{12} \times \frac{2}{3}$	2,000,000
Reduction due to Share consolidation on 30 June 2016 (6,000,000/3 x 1)	(2,000,000)		
	4,000,000	$\times \frac{6}{12}$	<u>2,000,000</u>
(W-2)			<u>4,000,000</u>

Before	Share consolidation
Loss	3
After	(1)
	2

Question-33

A company had 580,000 ordinary shares in issue on 30 November 2015. On 1 March 2016, 106,000 shares were issued at market value.

On 1 September 2016, the company consolidated its shares such that every 8 shares were consolidated into 3 share. The basic earnings in 2015 were Rs. 3,223,200 and Rs. 5,756,766 in 2016.

Required

1. Calculate the Basic Earnings per share for the year ended 30 November 2015.
2. Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Answer-33

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)	2015		
	EPS	=	$\frac{3,223,200}{580,000}$
		=	Rs. 5.56 per share
2)	2016		
	EPS	=	$\frac{5,756,766}{247,313}$
		=	Rs. 23.28 per share
	2015 (Restated)		
	EPS	=	5.56 x Reciprocal of share consolidation
		=	5.56 x 8/3
		=	Rs. 14.83 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 December 2015	580,000	x 3/12 x 3/8	54,375
New issued shares on 1 March 2016	106,000		
	686,000	x 6/12 x 3/8	128,625
Reduction due to Share consolidation on 1.9.2016 (686,000/8 x 5)	(428,750)		
	257,250	: x 3/12	64,313
			<u>247,313</u>

(W-2)

Before
Loss
After

Share consolidation
8
(5)
3

Question-34

Shair Baz & Co., a listed company, has a financial year ending 28 February.

On 1 March 2015, there were 2,658,550 shares in issue.

On 1 June 2015, the company consolidated its shares such that every 11 shares were consolidated into 5 shares.

On 1 October 2015, Shair Baz & Co. made a Rights issue to existing shareholders of 13 new shares for every 63 shares held at the price of Rs. 25. The market price of shares just before the rights issue was Rs. 64 per share.

On 1 December 2015, there was a share split whereby every 8 shares became 13 shares.

Total earnings in the year ending 29 February 2016 were Rs. 8,545,000.

Total earnings in the year ending 28 February 2015 were Rs. 5,561,000.

Required

1. Calculate the Basic Earnings per share for the year ended 28 February 2015.
2. Calculate the Basic Earnings per share for the year ended 29 February 2016 along with comparatives.

Answer-34

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1) 2015		
EPS	=	$\frac{5,561,000}{2,658,550}$
	=	Rs. 2.09 per share
2) 2016		
EPS	=	$\frac{8,545,000}{2,265,810}$
	=	Rs. 3.77 per share
2015 (Restated)		
EPS	=	2.09 x Reciprocal of Right issue bonus Fraction, Share split & Share Consolidation
	=	$2.09 \times 11/5 \times 57.33/64 \times 8/13$
	=	Rs. 2.53 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 March 2015	2,658,550	$\times 3/12 \times 5/11 \times 64/57.33 \times 13/8$	548,042
Reduction due to Share consolidation on 1.6.2015 (2,658,550/11 x 6)	(1,450,118)		
	1,208,432	$\times 4/12 \times 64/57.33 \times 13/8$	730,722
Right shares issued on 1 October (1,208,432/63 x 13)	249,359		
	1,457,791	$\times 2/12 \times 13/8$	394,818
Increase due to Share split on 1 December 2016 (1,457,791/8 x 5)	911,119		
	2,368,910	$\times 3/12$	592,228
			<u>2,265,810</u>

CHAPTER-08

(W-2)	Share consolidation	Share split
	11	8
Before	(6)	5
New/(Loss)	5	13
After		

(W-3) Right issue bonus Fraction

=	$\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$	
=	64/57.33	Rs.
<u>Theoretical ex-rights price</u>		4,032
Before	(63 x Rs.64)	325
New	(13 x Rs. 25)	
After	(76 x Rs.57.33 (bal))	4,357

Question-35 (Bonus issue at mid of year)

Talha Chaudhry & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 97,000 shares in issue.

On 1 March 2016, there was a share split whereby every 4 shares became 7 shares.

On 1 August 2016, Talha Chaudhry & Co. made a bonus issue to existing shareholders of 7 new share for every 12 shares held.

On 1 October 2016, the company consolidated its shares such that every 6 shares were consolidated into 1 share.

Total earnings in the year ending 30 November 2016 were Rs. 2,570,000.

Total earnings in the year ending 30 November 2015 were Rs. 2,570,000.

Required

- Calculate the Basic Earnings per share for the year ended 30 November 2015.
- Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Answer-35

Earnings per share	=	$\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$
1) 2015 EPS	=	$\frac{2,570,000}{97,000}$
	=	Rs. 26.49 per share
2) 2016 EPS	=	$\frac{2,570,000}{44,796}$
	=	Rs. 57.37 per share
2015 (Restated) EPS	=	26.49 x Reciprocal of Bonus Fraction, share split & share consolidation
	=	$26.49 \times \frac{4}{7} \times \frac{12}{19} \times \frac{6}{1}$
	=	Rs. 57.36 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 December	97,000	$\times \frac{3}{12} \times \frac{7}{4} \times \frac{19}{12} \times \frac{1}{6}$	11,199
Increase due to Share split on 1 March 2016 ($97,000/4 \times 3$)	<u>72,750</u>		
	169,750	$\times \frac{5}{12} \times \frac{19}{12} \times \frac{1}{6}$	18,665
Bonus shares issued on 1 August 2016 ($169,750/12 \times 7$)	<u>99,021</u>		
	268,771	$\times \frac{2}{12} \times \frac{1}{6}$	7,466
Reduction due to Share consolidation on 1.10.2016 ($268,771/6 \times 5$)	<u>(223,976)</u>		
	44,795	$\times \frac{2}{12}$	<u>7,466</u>
			<u>44,796</u>

(W-2)

	Share split	Bonus issue	Share consolidation
Before	4	12	6
New/(Loss)	3	7	(5)
After	7	19	1

LO8: PARTLY PAID ORDINARY SHARES

The number of ordinary shares is calculated based on the number of fully paid shares. In order to do this partly paid shares are included as an equivalent number of fully paid shares to the extent they are entitled to participate in dividends.

Question-36

Company A has a financial year ending 31 December.

On 1 January Year 1 there were 6,000,000 ordinary shares in issue.

1,000,000 of these shares were partly paid to 75% of their value which entitles them to 75% dividend as compared to a fully paid share.

On 1 April, the remaining 25% of the value of the partly paid shares was received.

Total earnings in Year 1 were Rs.24,750,000.

Required

Calculate EPS for Year 1

Answer-36

$$\begin{aligned}
 \text{Earnings per share} &= \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}} \\
 \text{Year 1 EPS} &= \frac{24,750,000}{5,937,500} \\
 &= \text{Rs. 4.17 per share}
 \end{aligned}$$

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January (6,000,000-250,000)	5,750,000	x 3/12	1,437,500
Receipt of partly of balance on partly paid shares (25% of 1,000,000)	250,000		
1 April to 31 December	6,000,000	x 9/12	4,500,000
			<u>5,937,500</u>

LO9: EARNINGS PER SHARE IN CASE OF DISCONTINUED OPERATIONSEarnings Per Share in case of Discontinued operations:

Earnings from discontinued operations are dealt with separately. An EPS from any discontinued operations must also be disclosed, but this does not have to be disclosed on the face of the statement of profit or loss. Instead, it may be shown in a note to the financial statements.

Question-37 (Basic EPS)

In the year ended 31 December Year 1, Entity G made profit after tax of Rs.3,500,000. Of this, Rs.3,000,000 was from continuing operations and Rs.500,000 from discontinued operations. It paid ordinary dividends of Rs.150,000 and preference dividends of Rs.65,000. The preference shares were correctly classified as liabilities in accordance with IAS 32. Entity G had 1 million ordinary shares in issue throughout the year.

Required

Calculate basic EPS for the year ended 31 December Year 1.

Answer-37

EPS = $\frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$

Year 1

EPS

=

3,000,000

=

1,000,000

Rs. 3 per share (EPS from continued operation)

EPS

=

500,000

=

1,000,000

Rs. 0.5 per share (EPS from discontinued operation)

Question-38

In the year ended 31 December Year 1, Entity G made profit after tax of Rs.3,500,000. Of this, Rs.3,000,000 was from continuing operations and Rs.500,000 from discontinued operations. It paid ordinary dividends of Rs.150,000 and preference dividends of Rs.65,000. The preference shares were correctly classified as equity in accordance with IAS 32. Entity G had 1 million ordinary shares in issue throughout the year.

Required

Calculate basic EPS for the year ended 31 December Year 1.

Answer-38

EPS = $\frac{\text{Net profit (or loss) attributable to ordinary shareholders during a period}}{\text{weighted average number of shares in issue during the period}}$

Year 1

EPS	=	$\frac{3,000,000 - 65,000}{1,000,000}$
	=	Rs. 2.94 per share (EPS from continued operation)
EPS	=	$\frac{500,000}{1,000,000}$
	=	Rs. 0.5 per share (EPS from discontinued operation)

LO10: DILUTED EPS

An entity might have potential ordinary shares in issue. There is a possibility that these will become actual ordinary shares at some time in the future. Potential ordinary shares do not impact calculation of basic EPS but diluted EPS might differ from basic EPS when there are potential ordinary shares in existence.

Examples of potential ordinary shares include:

- Convertible bonds (debentures)
- Convertible preference shares
- Share options or warrants

(a) Definitions

- (i) Options, warrants and their equivalents are financial instruments that give the holder the right to purchase ordinary shares.

If potential shares become actual ordinary shares, the earnings figure will be shared with a larger number of ordinary shares. This might dilute the EPS. The literal meaning of 'dilution' is 'watering down' or 'reduction in strength'. IAS 33 defines 'dilution' as follows:

- (ii) Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

The objective of diluted EPS is consistent with that of basic earnings per share, that is, to provide a measure of the performance of each ordinary share taking into account dilutive potential ordinary shares outstanding during the period.

If potential ordinary shares become actual ordinary shares, not only there would be change in number of shares but earnings may also change as entity will no longer be paying interest on convertible bonds or dividend on convertible preference shares.

For the purpose of calculating diluted EPS, an entity shall adjust profit or loss attributable to ordinary equity holders, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

Not all potential ordinary shares are dilutive, though, and may be anti-dilutive.

- (iii) Anti-dilution is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

1. **When potential ordinary shares are anti-dilutive**

When potential ordinary shares are anti-dilutive, they are disregarded in the calculation of diluted EPS. The following summary is helpful:

Convertible bonds

Incremental EPS = Interest (net of tax) / ordinary shares obtainable on conversion Anti-dilutive, when:

- Incremental EPS > basic earnings per share
- Incremental EPS < basic loss per share

Convertible preference shares

Incremental EPS = Dividend for current period / ordinary shares obtainable on conversion Anti-dilutive, when:

- Incremental EPS > basic earnings per share
- Incremental EPS < basic loss per share

Options and warrants

Anti-dilutive, when:

- Options are 'out of money' in case of basic earnings per share
- There is basic loss per share

Options are 'out of money' when exercise price of the option exceeds share price. Nobody

would pay an exercise price of Rs. 100 for something worth only Rs. 80.

2. **Convertible instruments**

When there are convertible bonds or convertible preference shares, diluted EPS is calculated as follows, by making adjustments to total earnings and the number of shares in issue used in the basic EPS calculation.

Earnings

Earnings are adjusted because the entity would not have to pay the dividend or interest on the convertible securities.

- For convertible preference shares, add back the preference dividend paid in the year. Total earnings will be increased by the preference dividend saved.
- For convertible bonds, add back the interest charge on the bonds in the year less the tax relief relating to that interest. Total earnings will increase by the interest saved less tax.

Number of shares

The weighted average number of shares is increased, by adding the maximum number of new shares that would be created if all the potential ordinary shares were converted into actual ordinary shares.

The additional number of shares is calculated on the assumption that they were in issue from the beginning of the year or from the date of issue whichever is later.

IAS 33 provides for use of most dilutive option when multiple conversion options are available.

If new convertibles are issued during the course of the year, the additional number of shares and the earnings adjustment are included only from the time that the convertibles were issued.

Question 39**Gold Limited**

Gold Limited (GL) has 12,000,000 ordinary shares and Rs. 4,000,000 5% convertible bonds in issue as at 31 December 20X2, there have been no new issues of shares or bonds for several years.

The bonds are convertible into ordinary shares in 20X3 or 20X4, at the following rates:

- At 30 shares for every Rs. 100 of bonds if converted at 31 December 20X3
- At 25 shares for every Rs. 100 of bonds if converted at 31 December 20X4

Total earnings for the year to 31 December 20X2 were Rs. 36,000,000. Tax is payable at a rate of 30% on profits.

Required:

Calculate basic EPS and diluted EPS for the year ended 31 December 20X2. (ICAP ST Example-15)

Answer 39

$$\text{Basic EPS (20X2)} = \frac{\text{Rs. 36,000,000}}{12,000,000 \text{ shares}} = \text{Rs. 3 per share}$$

Convertible bonds

Interest saving = Rs. 4,000,000 x 5% = Rs. 200,000

Tax effect = Rs. 200,000 x 30% = Rs. 60,000

Incremental earnings = Rs. 200,000 – 60,000 = Rs. 140,000

Incremental shares (maximum) = Rs. 4,000,000 / 100 x 30 shares = 1,200,000 shares

Incremental EPS = Rs. 140,000 / 1,200,000 shares = Rs. 0.1167

These are potentially dilutive since incremental EPS is less than basic EPS.

$$\text{Diluted EPS (20X2)} = \frac{\text{Rs. 36,000,000} + 140,000}{12,000,000 + 1,200,000 \text{ shares}} = \text{Rs. 2.74 per share}$$

3. Share options or warrants

If the option holder exercises this right the number of shares would increase and the company would receive the cash paid for the shares and this would be available to invest in the business and in turn this would be expected to boost its earnings. However, it is impossible to predict how total earnings will be affected when the cash is eventually received.

This presents a problem. Including the shares in the diluted EPS calculation without adjusting the earnings would be inconsistent but it is not possible to adjust the earnings.

IAS 33 solves this problem in quite a neat way. The amount that would be received on exercise of the options is treated as cash received from selling shares at full price with the remaining shares having been given away. The shares sold at full price are not considered to be dilutive as any cash would be invested to earn the same return as earned in the period. It is only the free shares that are dilutive.

Free shares can be calculated as follows:

Formula: Free shares

Number of options in issue

*Average share price during the period

Fair value* – Exercise price

Fair value*

Diluted EPS can be calculated by adding free shares in weighted average number of shares used in basic EPS calculation and not change in the amount of earnings is required.

Question 40**Bronze Limited**

Bronze Limited (BL) had total earnings during Year 20X3 of Rs. 25,000,000. It has 5,000,000 ordinary shares in issue.

There are outstanding share options on 400,000 shares, which can be exercised at a future date, at an exercise price of Rs. 25 per share.

The average market price of shares in BL during Year 20X3 was Rs. 40.

Required:

Calculate basic EPS and diluted EPS for the year ended 31 December 20X3. (ICAP ST Example-17)

Answer: 40

$$\text{Basic EPS (20X3)} = \frac{\text{Rs. 25,000,000}}{5,000,000 \text{ shares}} = \text{Rs. 5 per share}$$

Share options

These are dilutive since exercise price of Rs. 25 is less than share market price of Rs. 40 i.e. in the money options.

$$\text{Free shares} = 400,000 \text{ options} \times (40 - 25) / 40 = 150,000 \text{ shares}$$

$$\text{Diluted EPS (20X3)} = \frac{\text{Rs. 25,000,000}}{5,000,000 + 150,000 \text{ shares}} = \text{Rs. 4.85 per share}$$

4. Order of dilution

When there are several types of potential ordinary share in issue, they should be ranked in order of dilution, with the most dilutive potential ordinary shares ranked first. In order to carry out the ranking the earnings per incremental share is found for each potential ordinary share. This is the earnings adjustment that would be necessarily divided by the number of shares that would come into being if the share were included in the calculation of diluted EPS.

Note that 'in the money' options always rank first as they increase the number of shares in the calculation without affecting the earnings

LO11: EARNINGS PER SHARE AS A PERFORMANCE MEASURE**Earnings per share and trends****The price/earnings ratio**

The price/earnings ratio (P/E ratio) is a key stock market ratio. The P/E ratio is calculated as follows:

Formula: Price earnings ratio

$$\text{P/E ratio} = \frac{\text{Market value of share}}{\text{Earnings per share}}$$

A high P/E ratio usually indicates that the stock exchange expects strong performance from the company in the future. Higher the P/E better it is for the company.

Significance of Earnings per share

EPS is used by investors as a measure of the performance of companies in which they invest - or might possibly invest. Investors are usually interested in changes in a company's EPS over time - trends - and also in the size of EPS relative to the current market price of the company's shares.

EPS should therefore be calculated by all companies in a standard way, so that investors can obtain a reliable comparison between the EPS and P/E ratios of different companies.

The purpose of standardising the calculation and presentation of EPS is to make it easier for the users of financial statements to compare the performance of:

- different entities in the same reporting period; and
- the same entity for different reporting periods over time.

LO12: PRESENTATION AND DISCLOSURE**Presentation requirements**

An entity should present in the statement of profit or loss:

- the basic EPS and
- the diluted EPS

for the profit or loss from continuing operations.

For consolidated accounts, this is the EPS and diluted EPS attributable to the owners of the parent company.

The basic EPS and diluted EPS should be presented with equal prominence for all the periods presented (the current year and the previous year). These figures are presented at the end of the statement of profit or loss.

If the entity presents a separate statement of profit or loss:

- the EPS and diluted EPS should be shown in this statement, and
- not in the statement of comprehensive income.

If there is a discontinued operation, the basic EPS and diluted EPS from discontinued operation should be shown either on the face of the statement of profit or loss or in a note to the financial statements.

The basic and the diluted EPS should be presented, even if it is a negative figure (even if it is a loss per share).

If diluted earnings per share is reported for at least one period, it shall be reported for all periods presented, even if it equals basic earnings per share. If basic and diluted earnings per share are equal, dual presentation can be accomplished in one line in the statement of comprehensive income.

Disclosure requirements

IAS 33 also requires disclosure in a note to the financial statements of the following:

- The total amounts used as the numerators (total earnings figures) to calculate the basic EPS and diluted EPS, and a reconciliation of these numerator figures to the profit or loss for the period
- The total amounts used in the denominators (weighted average number of shares) to calculate the basic EPS and diluted EPS, and a reconciliation of these two denominator figures to each other.

Additional measure of EPS

An entity may disclose, in addition to basic and diluted earnings per share, amounts per share using a reported component of profit other than one required by IAS 33, for example, EPS based on operating profit or profit from major segment of the business. In such case, the following requirements apply:

- such amounts shall be calculated using the weighted average number of ordinary shares determined in accordance with IAS 33.
- Basic and diluted amounts per share relating to such a component shall be disclosed with equal prominence and presented in the notes (not on face).
- An entity shall indicate the basis on which the numerator(s) is (are) determined including whether amounts per share are before tax or after tax.
- If a component of profit is used that is not reported as a line item in the statement of profit or loss and other comprehensive income, a reconciliation shall be provided.

CHAPTER-07
EARNINGS PER SHARE
PRACTICE QUESTIONS

Question-1 (Full Market Price Twice)

Company B has a financial year ending 31 December.

On 1 January Year 3, there were 9,000,000 ordinary shares in issue.

On 1 May, Company B issued 1,200,000 new share at full market price.

On 1 October, it issued a further 1,800,000 new share, also at full market price.

Total earnings in year 3 were Rs. 36,900,000.

Required

Calculate the Earnings per share for the year ended 31 December year 3.

Question-2 (Bonus Shares issued at mid)

Company C has a 31 December financial year end.

On 1 January Year 5 it has 4,000,000 shares in issue.

On 1 July Year 5 it made a 1 for 4 bonus issue.

Total earnings in the year ending 31 December Year 5 were Rs. 20,000,000.

Total earnings in the year ending 31 December Year 4 were Rs. 20,000,000.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December Year 4.
- 2) Calculate the Basic Earnings per share for the year ended 31 December Year 5 along with comparatives.

Question-3 (Full Market Price + Bonus Shares Issued)

Company D has a 31 December year end and had 2,000,000 ordinary shares in issue on 1 January Year 2.

On 31 March Year 2, it issued 500,000 ordinary shares, at full market price.

On 1 July Year 2, Company D made a 1 for 2 bonus issue.

In Year 1, the EPS had been calculated as Rs.30 per share.

In Year 2, total earnings were Rs. 85,500,000.

Required

Calculate the Basic Earnings per share for the year ended 31 December Year 2 along with comparatives.

Question-4 (Right Shares Issued + Full Market Price)

Company F had 3 million ordinary shares in issue on 1 January Year 7.

On 1 April Year 7, it made a 1 for 2 rights issue of 1,500,000 ordinary shares at Rs.20 per share.

The market price of the shares prior to the rights issue was Rs.50.

An issue of 400,000 shares at full market price was then made on 1 August Year 7.

In the year to 31 December Year 7, total earnings were Rs.17,468,750. In Year 6 EPS had been reported as Rs.3.5.

Required

Calculate the EPS for the year to 31 December Year 7, and the adjusted EPS for Year 6 for comparative purposes.

Question-5

A company issued 200,000 shares at full market price (Rs.3) on 1 July 20X8.

Relevant information

	31.12 20X8	31.12 20X7
Profit attributable to the ordinary shareholders for the year ending 31 December	550,000	460,000
Number of ordinary shares in issue at 31 December	1,000,000	800,000

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 20X7.
- 2) Calculate the Basic Earnings per share for the year ended 31 December Year 20X8 along with comparatives.

Question-6

Gerard's earnings for the year ended 31 December 20X4 are Rs. 2,208,000. On 1 January 20X4, the issued share capital of Gerard was 8,280,000 ordinary shares of Rs.1 each. The company issued 3,312,000 shares at full market value on 30 June 20X4.

Required

Calculate the EPS for Gerard for 20X4.

Question-7

A company makes a bonus issue of one new share for every five existing shares held on 1 July 20X8.

	31.12 20X8	31.12 20X7
Profit attributable to the ordinary shareholders for the year ending 31 December	550,000	460,000
Number of ordinary shares in issue at 31 December	1,200,000	1,000,000

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 20X7.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 20X8 along with comparatives.

Question-8

Dorabella Plc had the following capital and reserves on 1 April 20X1:

	Rs.000
Share capital (Rs.1 ordinary shares)	7,000
Share premium	900
Revaluation reserve	500
Retained earnings	9,000
Shareholders' funds (Equity)	17,400

Dorabella Plc makes a bonus issue, of one share for every seven held, on 31 August 20X2.

Dorabella Plc's results are as follows:

	31.March 20X3 Rs.000 1,150	31.March 20X2 Rs.000 750
Profit after tax		
Required		

- 1) Calculate the Basic Earnings per share for the year ended 31 March 20X1.
- 2) Calculate the Basic Earnings per share for the year ended 31 March 20X2 along with comparatives.

Question-9

An entity had 1 million shares in issue on 1 January 20X1. They issued 200,000 shares at market value on 1 April, followed by a 1 for 5 bonus issue on 1 August, with a further 300,000 issued at market value on 1 October.

Required

If profit for the year ending 31 December 20X1 is Rs.220,000, what is the basic earnings per share?

Question-10

A company issued one new share for every two existing shares held by way of rights at Rs.1.50 per share on 1 July 20X8. Pre-issue market price was Rs.3.00 per share.

Relevant information

	31.12 20X8	31.12 20X7
Profit attributable to the ordinary shareholders for the year ending 31 December	Rs.550,000	Rs.460,000
Number of ordinary shares in issue at 31 December	1,200,000	800,000
Required		

- 1) Calculate the Basic Earnings per share for the year ended 31 December 20X7.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 20X8 along with comparatives.

Question-11

On 31 December 20X1, the issued share capital consisted of 4,000,000 Ordinary shares of Rs.0.25 each. On 1 July 20X2 the company made a rights issue in the proportion of 1 for 4 at Rs.0.5 per share and the shares were quoted immediately before the issue at Rs.1. Its trading results for the last two years were as follows:

	Year ended 31 December	
	20X1 Rs.	20X2 Rs.
Profit after tax	320,000	425,000
Required		

- 1) Calculate the Basic Earnings per share for the year ended 31 December 20X1.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 20X2 along with comparatives.

Question-12

An entity had 14 million ordinary shares in issue on 1 January 20X4 and 20X5. In its financial year ended 31 December 20X5 it issued further shares, as follows:

- On 1 April 20X5, 2 for 7 bonus shares issued.
- On 1 July 20X5 a rights issue of one for six at Rs.15 when the market price of the existing shares was Rs.20.

A profit of Rs.17 million attributable to the ordinary equity holders was reported for 20X5 and Rs.14 million for 20X4.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 20X4.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 20X5 along with comparatives.

Question-13

Turaco is a company listed on a recognised stock exchange. Given below is an extract from its statement of comprehensive income for the year ended 31 December 20X6.

	Rs.
Profit before tax	500,000
Tax	150,000
Profit after tax	<u>350,000</u>

The company paid an ordinary dividend of Rs.20,000 and a dividend on its redeemable preference shares of Rs.70,000.

The company had Rs.100,000 of share capital. Par value per share is Rs.0.50 in issue throughout the year and authorised share capital of 1,000,000 ordinary shares.

Required

What is the basic earnings per share figure for the year according to IAS 33 Earnings per Share?

Question-14

Puffbird is a company listed on a recognised stock exchange. Its financial statements for the year ended 31 December 20X6 showed earnings per share of Rs.0.95.

On 1 July 20X7 Puffbird made a one for three bonus issue.

Required

According to IAS 33 Earnings per Share, what figure for the 20X6 earnings per share will be shown as comparative information in the financial statements for the year ended 31 December 20X7?

Question-15

The Urtica Company is listed on a recognised stock exchange.

During the year ended 31 December 20X6, the company had 5 million ordinary shares of Rs.1 and 500,000 6% irredeemable preference shares of Rs.1 in issue.

Profit before tax for the year was Rs.300,000 and the tax charge was Rs.75,000.

Required

According to IAS 33 Earnings per Share, what is Urtica's basic earnings per share for the year?

Question-16

The Garfish Company had profits after tax of Rs.3 million in the year ended 31 December 20X7. On 1 January 20X7, Garfish had 2.4 million ordinary shares in issue. On 1 April 20X7 Garfish made a one for two rights issue at a price of Rs.1.4 when the market price of Garfish's shares was Rs.2

Required

What is Garfish's basic earnings per share figure for the year ended 31 December 20X7, according to IAS 33 Earnings per Share?

Question-17

The Sakho Company has 850,000 ordinary shares in issue on 1 January 20X7 and had the following share transactions in the year ended 31 December 20X7.

- (i) A one for five bonus issue on 1 May 20X7
- (ii) A two for five rights issue on 1 September 20X7 at Rs.0.45 when the market price was Rs.1.50.

Required

Indicate whether the following statements are true or false according to IAS 33 Earnings per Share.

- (a) The basic earnings per share for the year ended 31 December 20X6 has to be adjusted by a fraction of 5/6.
- (b) For the calculation of 20X7 basic earnings per share, the number of shares in issue prior to the rights issue has to be adjusted by a rights fraction of 1.50/1.20.

Question-18

On 1 January the issued share capital of Pillbox was 12 million, redeemable preference shares of Rs.1 each and 10 million ordinary shares of Rs.1 each. The earnings for the year ended 31 December were Rs.5,950,000.

Required

Calculate the EPS (for (a) - (d)) separately in respect of the year ended 31 December 20X7 for each of the following independent circumstances, on the basis that:

- (a) There was no change in the issued share capital of the company, during the year, ended 31 December
- (b) The company made a bonus issue on 1 October of one ordinary share for every four shares in issue at 30 September
- (c) The company issued 1 share for every 10 shares on 1 August at full market value of Rs.4
- (d) The company made a rights issue of 1 ordinary share on 1 October in the proportion of 1 of every 3 shares held, at a price of Rs.3. The middle market price for the shares on the last day of quotation cum rights was Rs.4 per share

Question-19

XYZ limited company has the following profit after tax figures;

	Rs, In million
2006	1.1
2007	1.5
2008	1.8

CHAPTER-08

On 1.1.2007, the number of shares outstanding were 500,000. During 2007 the company announced a right share with the following detail.

Rights: 1 new share for every 5 shares held	Rs.5
Exercise price	
Last date to exercise the right is 1.3.2007	

The market value of one share of the company immediately prior to exercise of rights on 1.3.2007 is Rs. 11.

Required

Calculate the EPS for the year ended 31.12.2006, 2007 and 2008. For 2007 also show comparatives.

Question-20

BE limited Following information relates to the company for the year ended June 30;

	Rs. 2001	Rs. 2000
Net (loss)/profit after tax	(8,000,000)	6,500,000
Ordinary share capital	1,200,000	1,000,000
10% cumulative preference shares	500,000	500,000

- All the shares of the company are of Rs.1 each.
- Company issued 20,000 ordinary shares for cash on January 1, 2000 (if nothing is mentioned then assume that at full market value)
- Company declared cash dividend of 30% and bonus shares of 20% in the year 2000. The bonus shares were issued to the shareholders on January 1, 2001.

Required

- 1) Calculate the Basic Earnings per share for the year ended 30 June 20X0.
- 2) Calculate the Basic Earnings per share for the year ended 30 June 20X1 along with comparatives.

Question-21

In the year ended 31 December 20X6, there were 12 million ordinary shares in issue and the earnings per share was calculated as Rs.0.333 per share. In the year ended 31 December 20X7 the earnings available for ordinary shareholders amounted to Rs.5 million.

On 30 September 20X7 the company made a one for four bonus issue.

Required

What is the EPS for the year ended 31 December 20X7 and the restated EPS for the year ended 31 December 20X6?

Question-22

In the year ended 31 December 20X6, there were 12 million ordinary shares in issue and that earning available for ordinary shareholders was Rs.4 million. In the year ended 31 December 20X7 the earning available for ordinary shareholders amounted to Rs.5 million.

On 31 March 20X7 the company issued two million extra shares for cash.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 20X6.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 20X7 along with comparatives.

Question-23

In the year ended 31 December 20X6, there were 12 million ordinary shares in issue and the earnings per share was calculated as Rs.0.333 per share. In the year ended 31 December 20X7 the earnings available for ordinary shareholders amounted to Rs.5 million.

The company made a one for five rights issue on 30 June 20X7 at a price of Rs.1.50 and the cum rights price on the last day before the rights issue was Rs2.

Required

- 1) Calculate the Basic Earnings per share for the year ended 31 December 20X6.
- 2) Calculate the Basic Earnings per share for the year ended 31 December 20X7 along with comparatives.

Question-24

Beta & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 97,000 shares in issue.

On 1 February 2016 Beta & Co, Issued 5,000 new shares for Rs.15 at market price.

On 1 April 2016, Beta & Co. made a bonus issue to existing shareholders of 3 new share for every 8 shares held.

On 30 June 2016, there was a share split whereby every 5 shares became 8 shares.

On 1 October 2016, the company consolidated its shares such that every 8 shares were consolidated into 2 shares.

Total earnings in the year ending 30 November 2016 were Rs. 5,860,000.

Total earnings in the year ending 30 November 2015 were Rs. 5,860,000.

Required

1. Calculate the Basic Earnings per share for the year ended 30 November 2015.
2. Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

Question-25

Delta & Co., a listed company, has a financial year ending 28 February.

On 1 March 2015, there were 870,000 shares in issue.

On 31 July 2015 Delta & Co, Issued 96,000 new shares for Rs.70 at market price.

On 30 September 2015, there was a share split whereby every 3 shares became 9 shares.

On 1 December 2015, Delta & Co. made a bonus issue to existing shareholders of 5 new share for every 7 shares held.

On 1 February 2016, the company consolidated its shares such that every 10 shares were consolidated into 3 shares.

Total earnings in the year ending 28 February 2016 were Rs. 85,997,220.

Total earnings in the year ending 28 February 2015 were Rs. 75,455,523.

Required

1. Calculate the Basic Earnings per share for the year ended 28 February 2015.
2. Calculate the Basic Earnings per share for the year ended 28 February 2016 along with comparatives.

CHAPTER-08

Question-26

Gamma & Co., a listed company, has a financial year ending 30 September.

On 1 October 2015, there were 9,870,556 shares in issue.

On 31 December 2015 Gamma & Co. Issued 895,556 new shares for Rs.56 at market price.

On 1 February 2016, the company consolidated its shares such that every 9 shares were consolidated into 6 shares.

On 1 June 2016, Gamma & Co. made a bonus issue to existing shareholders of 5 new share for every 7 shares held.

On 30 August 2016, there was a share split whereby every 1 shares became 7 shares.

Total earnings in the year ending 30 September 2016 were Rs. 83,665,463

Total earnings in the year ending 30 September 2015 were Rs. 86,546,354.

Required

1. Calculate the Basic Earnings per share for the year ended 30 September 2015.
2. Calculate the Basic Earnings per share for the year ended 30 September 2016 along with comparatives.

Question-27

Aindawal & Co., a listed company, has a financial year ending 30 June.

On 1 July 2015, there were 9,870,556 shares in issue.

On 30 August 2015, there was a share split whereby every 5 shares became 6 shares.

On 31 December 2015 Aindawal & Co. Issued 35,000 new shares for Rs.20 at market price.

On 30 March 2016, there was a share split whereby every 3 shares became 7 shares.

On 1 May 2016, the company consolidated its shares such that every 9 shares were consolidated into 4 shares.

Total earnings in the year ending 30 June 2016 were Rs. 5,564,544

Total earnings in the year ending 30 June 2015 were Rs. 4,535,431.

Required

1. Calculate the Basic Earnings per share for the year ended 30 June 2015.
2. Calculate the Basic Earnings per share for the year ended 30 June 2016 along with comparatives.

Question-28

Sega & Co., a listed company, has a financial year ending 30 November.

On 1 December 2015, there were 97,000 shares in issue.

On 1 February Sega & Co. Issued 5,000 new shares at market price.

On 1 April 2016, Sega & Co. made a bonus issue to existing shareholders of 3 new shares for every 8 shares held.

On 1 September 2016, the company consolidated its shares such that every 8 shares were consolidated into 2 shares

On 1 October 2016, Sega & Co. made a right issue to existing shareholders of 3 new shares for every 5 held at the price of Rs. 7. The market price of shares just before the rights issue was Rs. 12 per share.

Total earnings in the year ending 30 November 2016 were Rs. 780,600.

Total earnings in the year ending 30 November 2015 were Rs. 580,200.

Required

1. Calculate the Basic Earnings per share for the year ended 30 November 2015.
2. Calculate the Basic Earnings per share for the year ended 30 November 2016 along with comparatives.

SOLUTIONS**Answer-1**

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

Year 3

EPS = $\frac{36,900,000}{10,250,000}$
= 3.6 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	9,000,000	x 4/12	3,000,000
New issued shares on 1 May	1,200,000		
1 May to 30 September	10,200,000	x 5/12	4,250,000
New issued shares on 1 October	1,800,000		
1 October to 31 December	12,000,000	x 3/12	3,000,000
			<u>10,250,000</u>

Answer-2

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)**Year 4**

EPS = $\frac{20,000,000}{4,000,000}$
= 5 per share

2)**Year 5**

EPS = $\frac{20,000,000}{5,000,000}$
= 4 per share

Year 4 (Restated)

EPS = 5 x Reciprocal of Bonus Fraction
= 5 x 4/5
= 4 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares (1 January to 30 June)	4,000,000	x 6/12 x 5/4	2,500,000
Bonus shares issued on 1 July (4,000,000/4 x 1)	1,000,000		
	5,000,000	x 6/12	2,500,000
			<u>5,000,000</u>

(W-2)

Before	Bonus issue
New	4
After	1
	5

Answer-3

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

Year 2

EPS = $\frac{85,500,000}{3,562,500}$
= 24 per share

Year 1 (Restated)

EPS = 30 x Reciprocal of Bonus Fraction
= $30 \times \frac{2}{3}$
= 20 per share

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares (1 January to 31 March)	2,000,000	$\times \frac{3}{12} \times \frac{3}{2}$	750,000
Shares issued at full price on 31 March	500,000		
1 April to 30 June	2,500,000	$\times \frac{3}{12} \times \frac{3}{2}$	937,500
Bonus Share issued on 1 July, $(2,500,000/2 \times 1)$	1,250,000		
(1 July to 31 December)	3,750,000	$\times \frac{6}{12}$	1,875,000
			<u>3,562,500</u>

(W-2)

Before	Bonus issue
New	2
After	1
	3

Answer-4

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

Year 7

EPS = $\frac{17,468,750}{4,479,167}$
= 3.9 per share

Year 6 (Restated)

EPS = 3.5 x Reciprocal of Right issue Bonus Fraction
= $3.5 \times \frac{40}{50}$
= 2.8 per share

CHAPTER-08

(W-1) Weighted average number of shares during the period

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	3,000,000	$\times 3/12 \times 50/40$	937,500
Right shares issued on 1 April (3,000,000 / 2 x 1)	1,500,000		
	4,500,000	$\times 4/12$	1,500,000
	400,000		
Shares issued at full market price on 1 August	4,900,000	$\times 5/12$	2,041,667
			<u>4,479,167</u>

(W-2) Right issue bonus Fraction

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= \frac{50}{40}$$

Theoretical ex-rights price

		Rs.
Before	(2 x Rs.50)	100
New	(1 x Rs. 20)	20
After	(3 x Rs.40 (bal))	<u>120</u>

Answer-5

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

20X7

$$\text{EPS} = \frac{460,000}{800,000}$$

$$= 0.575 \text{ per share}$$

2)

20X8

$$\text{EPS} = \frac{550,000}{900,000}$$

$$= 0.611 \text{ per share}$$

(W-1) Weighted average number of shares during 20X8

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	800,000	$\times 6/12$	400,000
New Share Issued on 1 July	200,000		
	1,000,000	$\times 6/12$	500,000
			<u>900,000</u>

Answer-6

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X4		
EPS	=	$\frac{2,208,000}{9,936,000}$
	=	0.22 per share

(W-1) Weighted average number of shares during 20X4

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	8,280,000	x 6/12	4,140,000
New Share Issued on 30 June	3,312,000		
	<u>11,592,000</u>	x 6/12	<u>5,796,000</u>
			<u>9,936,000</u>

Answer-7

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)		
20X7		
EPS	=	$\frac{460,000}{1,000,000}$
	=	0.46 per share

2)		
20X8		
EPS	=	$\frac{550,000}{1,200,000}$
	=	0.458 per share

20X7 (Restated)		
EPS	=	0.46 x Reciprocal of Bonus Fraction
	=	0.46 x 5/6
	=	0.383 per share

(W-1) Weighted average number of shares during 20X8

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	1,000,000	x 6/12 x 6/5	600,000
Bonus Share Issued on 1 July (1,000,000/5 x 1)	200,000		
	<u>1,200,000</u>	x 6/12	<u>600,000</u>
			<u>1,200,000</u>

(W-2)

Before	Bonus issue
New	5
After	1
	6

Answer-8

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

20X2

EPS

$$= \frac{750,000}{7,000,000}$$

$$= 0.107 \text{ per share}$$

2)

20X3

EPS

$$= \frac{1,150,000}{8,000,000}$$

$$= 0.144 \text{ per share}$$

20X2 (Restated)

EPS

$$= 0.107 \times \text{Reciprocal of Bonus Fraction}$$

$$= 0.107 \times \frac{7}{8}$$

$$= 0.094 \text{ per share}$$

(W-1) Weighted average number of shares during 20X3

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	7,000,000	$\times \frac{8}{12} \times \frac{8}{7}$	5,333,333
Bonus Share Issued on 31 August $(7,000,000/7 \times 1)$	1,000,000		
	8,000,000	$\times \frac{4}{12}$	2,666,667
			<u>8,000,000</u>

(W-2)

Before

New

After

Share issue

7

1

8

Answer-9

20X1

EPS

$$= \frac{220,000}{1,455,000}$$

$$= 0.151 \text{ per share}$$

(W-1) Weighted average number of shares during 20X1

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	1,000,000	$\times \frac{3}{12} \times \frac{6}{5}$	300,000
New Shares Issued on 1 April	200,000		
	1,200,000	$\times \frac{4}{12} \times \frac{6}{5}$	480,000
Bonus Shares Issued on 1 August $(1,200,000/5 \times 1)$	240,000		
	1,440,000	$\times \frac{2}{12}$	240,000
New Shares Issued on 1 October	300,000		
	1,740,000	$\times \frac{3}{12}$	435,000
			<u>1,455,000</u>

(W-2)

Before	Bonus issue
New	5
After	1
	6

Answer-10

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

20X7

EPS

$$= \frac{460,000}{800,000}$$

$$= 0.575 \text{ per share}$$

2)

20X8

EPS

$$= \frac{550,000}{1,080,000}$$

$$= 0.509 \text{ per share}$$

20X7 (Restated)

EPS

$$= 0.575 \times \text{Reciprocal of Right issue bonus Fraction}$$

$$= 0.575 \times 2.5/3$$

$$= 0.479 \text{ per share}$$

(W-1) Weighted average number of shares during 20X8

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	800,000	$\times 6/12 \times 3/2.5$	480,000
Right shares issued on 1 July (800,000/2 x 1)	400,000		
	<u>1,200,000</u>	$\times 6/12$	<u>600,000</u>
			1,080,000

(W-2) Right issue bonus Fraction

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= 3/2.5$$

Theoretical ex-rights price

		Rs.
Before	(2 x Rs.3)	6
New	(1 x Rs. 1.5)	1.5
After	(3 x Rs.2.5 (bal))	<u>7.5</u>

Answer-11

Earnings per share

Earnings attributable to ordinary shareholders during a period
Weighted average number of shares in issue during the period

1)

20X1

EPS

320,000
4,000,000
 0.08 per share

2)

20X2

EPS

425,000
4,722,222
 0.09 per share

20X1 (Restated)

EPS

0.08 x Reciprocal of Right issue bonus Fraction
 0.08 x 0.9/1
 0.072 per share

(W-1) Weighted average number of shares during 20X2

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	4,000,000	x 6/12 x 1/0.9	2,222,222
Right shares issued on 1 July (4,000,000/4 x 1)	<u>1,000,000</u>	x 6/12	<u>2,500,000</u>
	5,000,000		4,722,222

(W-2) Right issue bonus Fraction

= Actual cum rights price
Theoretical ex rights price
 = 1/0.9

Theoretical ex-rights price

		Rs.
Before	(4 x Rs.1)	4
New	(1 x Rs.0.5)	0.5
After	(5 x Rs.0.9 (bal))	4.5

Answer-12

Earnings per share

= Earnings attributable to ordinary shareholders during a period
Weighted average number of shares in issue during the period

1)

20X4

EPS

14,000,000
14,000,000
 1 per share

2)

20X5

EPS

17,000,000
31,495,335
 0.54 per share

20X4 (Restated)

$$\begin{aligned}
 \text{EPS} &= \frac{1 \times \text{Reciprocal of Right issue bonus Fraction}}{1 \times 2/9 \times 19.29/20} \\
 &= 0.214 \text{ per share}
 \end{aligned}$$

V-1) Weighted average number of shares during 20X5

ate	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	14,000,000	$\times \frac{3}{12} \times \frac{9}{2}$	16,329,705
Bonus shares issued on 1 April (14,000,000/7x2)	4,000,000	$\times \frac{20}{19.29}$	
Right shares issued on 1 July (18,000,000/6 x1)	3,000,000	$\times \frac{3}{12} \times \frac{20}{19.29}$	4,665,630
	21,000,000	$\times \frac{6}{12}$	10,500,000
			31,495,335

V-2) Right issue bonus Fraction

$$\begin{aligned}
 &= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}} \\
 &= \frac{20}{19.29}
 \end{aligned}$$

Theoretical ex-rights price

		Rs.
Before	(6 x Rs.20)	120
Now	(1 x Rs. 15)	15
After	(7 x Rs.19.29 (bal))	135

V-3)

	Bonus issue
Before	7
Now	2
After	9

Answer-13

	Rs
Profit (or loss) for the year (per the statement of comprehensive)	350,000
Less fixed preference dividends	(0)
Earnings attributable to ordinary shareholders	350,000

If the shares are redeemable the dividend of preference shares is already deducted as finance cost while arriving at profit after tax of 350,000. Thus ignored.

$$\begin{aligned}
 \text{Earnings per share} &= \frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}} \\
 &= \frac{350,000}{\left(\frac{100,000}{0.5}\right)} \\
 &= 1.75 \text{ per share}
 \end{aligned}$$

CHAPTER-08

Answer-14

20X6 (Restated)

EPS

=
=
=

0.95 x Reciprocal of bonus Fraction
 0.95 x 3/4
 0.71 per share

(W-2)

Before
 New
 After

Bonus issue
 3
 1
 4

Answer-15

Profit (or loss) for the year (per the statement of comprehensive) 300,000-75,000
 Less fixed preference dividends (500,000 x 6%)
 Earnings attributable to ordinary shareholders

Rs
 225,000
 (30,000)
195,000

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders}}{\text{Number of ordinary shares}}$
 = $\frac{195,000}{5,000,000}$
 = 0.039 per share

Answer-16

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS

= $\frac{3,000,000}{3,366,667}$
 = 0.89 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	2,400,000	x 3/12	666,667
Right shares issued on 1 April (2,400,000/2 x 1)	1,200,000	x 2/1.8	
	<u>3,600,000</u>	x 9/12	<u>2,700,000</u>
			<u>3,366,667</u>

(W-2) Right issue bonus Fraction

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$
 = 2/1.8

Theoretical ex-rights price

Before	(2 x Rs.2)	Rs.
New	(1 x Rs. 1.4)	4
After	(3 x Rs.1.8 (bal))	<u>1.4</u>
		5.4

Answer-17

- (a) The basic earnings per share for the year ended 31 December 20X6 has to be adjusted by a fraction of 5/6 is True as shown in working..
- (b) For the calculation of 20X7 basic earnings per share, the number of shares in issue prior to the rights issue has to be adjusted by a rights fraction of 1.5/1.2 is True as shown in working.

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	850,000	$\times 4/12 \times 6/5 \times 1.5/1.2$	425,000
Bonus shares issued on 1 May (850,000 / 5 x 1)	<u>170,000</u>		
	1,020,000	$\times 4/12 \times 1.5/1.2$	425,000
Rights share issue on 1 September (1,020,000/5 x 2)	<u>408,000</u>		
	1,428,000	$\times 4/12$	<u>476,000</u>
			1,326,000

(W-2)

Before	Bonus issue
New	5
After	<u>1</u>
	6

(W-2) Right issue bonus Fraction (Issued on 1 September)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= 1.5/1.2$$

Theoretical ex-rights price

Before	(5 x Rs.1.5)	Rs.
New	(2 x Rs. 0.45)	7.5
After	(7 x Rs.1.2 (bal))	<u>0.9</u>
		8.4

Answer-18

a)

$$\text{Earnings per share} = \frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$$

$$\text{20X7 EPS} = \frac{5,950,000}{10,000,000}$$

$$= 0.595 \text{ per share}$$

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	x 12/12	$\frac{10,000,000}{10,000,000}$

b)

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS = $\frac{5,950,000}{12,500,000}$
= 0.476 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	x 9/12 x 5/4	9,375,000
Bonus shares issued on 1 October (10,000,000/4 x 1)	<u>2,500,000</u>	x 3/12	<u>3,125,000</u>
	12,500,000		12,500,000

(W-2)

	Bonus issue
Before	4
New	1
After	5

c)

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS = $\frac{5,950,000}{10,416,666}$
= 0.571 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	x 7/12	5,833,333
New shares issued on 1 August (10,000,000/10 x 1)	<u>1,000,000</u>	x 5/12	<u>4,583,333</u>
	11,000,000		10,416,666

d)

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS = $\frac{5,950,000}{11,333,333}$
 = 0.525 per share
 (W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	10,000,000	$\times 9/12 \times 4/3.75$	8,000,000
Right shares issued on 1 October (10,000,000/3 x 1)	3,333,333		
	13,333,333	$\times 3/12$	3,333,333
			11,333,333

(W-2) Right issue bonus Fraction

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$
 = $4/3.75$

Theoretical ex-rights price

		Rs.
Before	(3 x Rs.4)	12
New	(1 x Rs.3)	3
After	(4 x Rs.3.75(bal))	15

Answer-19XYZ Limited Solution:

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

2006

EPS = $\frac{1,100,000}{500,000}$
 = 2.2 per share

2)

2007

EPS = $\frac{1,500,000}{591,667}$
 = 2.54 per share

2006 (Restated)

EPS

= 2.2 x Reciprocal of Right issue & Bonus Fraction
 = $2.2 \times 10/11$
 = 2 per share

3)

2008

EPS = $\frac{1,800,000}{600,000}$
 = 3 per share

(W-1) Weighted average number of shares during 2007

Date

Opening Shares on 1 January

Right shares issued on 1 March 2016 $(500,000/5 \times 1)$ Number
of shares

500,000

100,000

600,000

Factor

 $\times 2/12 \times 11/10$ $\times 10/12$ Weighted
average
number

91,667

500,000

591,667

(W-2) Right issue bonus Fraction (Issued on 1 March)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= 11/10$$
Theoretical ex-rights price

Before (5 x Rs.11)

New (1 x 5)

After (6 x Rs.10 (bal))

Rs.

55

5

60

(W-3) Weighted average number of shares during 2008

Date

Opening Shares on 1 January

Number
of shares

600,000

Factor

 $\times 12/12$ Weighted
average
number

600,000

Answer-20BE Limited Solution:

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

2000

EPS

$$= \frac{6,450,000 \text{ (W-2)}}{990,000}$$

$$= 6.52 \text{ per share}$$

2)

2001

EPS

$$= \frac{8,050,000 \text{ (W-5)}}{1,200,000}$$

$$= (6.71) \text{ per share}$$

2000 (Restated)

EPS

$$= 6.52 \times \text{Reciprocal of issue of Bonus Fraction}$$

$$= 6.52 \times 5/6$$

$$= 5.43 \text{ per share}$$
(W-1) Weighted average number of shares during 2000

Date

Opening Shares on 1 July (1,000,000 - 20,000)

New shares issued on 1 January 2000

Number
of shares

980,000

20,000

1,000,000

Factor

 $\times 6/12$ $\times 6/12$ Weighted
average
number

490,000

500,000

990,000

(W-2) Calculation of earnings attributable to ordinary shareholders during 2000

Profit (or loss) for the year (per the statement of comprehensive)		Rs.
Less fixed preference dividends		6,500,000
Earnings attributable to ordinary shareholders	(500,000 x 10%)	<u>(50,000)</u>
		6,450,000

(W-3) Weighted average number of shares during 2001

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 July	1,000,000	x 6/12 x 6/5	600,000
Bonus shares issued on 1 January (1000,000 x 20%)	<u>200,000</u>		
	1,200,000	x 6/12	<u>600,000</u>
			1,200,000

(W-4)

Before	Bonus issue
New	100
After	20
	120

(W-5) Calculation of earnings attributable to ordinary shareholders during 2001

Profit (or loss) for the year (per the statement of comprehensive)		Rs.
Less fixed preference dividends		(8,000,000)
Earnings attributable to ordinary shareholders	(500,000 x 10%)	<u>(50,000)</u>
		(8,050,000)

Answer-21

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

20X7

EPS = $\frac{5,000,000}{15,000,000}$
= 0.333 per share

20X6 (Restated)

EPS = 0.333 x Reciprocal of issue of Bonus Fraction
= $0.333 \times \frac{4}{5}$
= 0.266 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	12,000,000	x 9/12 x 5/4	11,250,000
Bonus shares issued on 30 September (12,000,000/4 x 1)	<u>3,000,000</u>		
	15,000,000	x 3/12	<u>3,750,000</u>
			15,000,000

(W-2)

Before	Bonus issue
New	4
After	1
	5

Answer-22

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)		
20X6		
EPS	=	$\frac{4,000,000}{12,000,000}$
	=	0.333 per share
2)		
20X7		
EPS	=	$\frac{5,000,000}{13,500,000}$
	=	0.37 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	12,000,000	x 3/12	3,000,000
New shares issued on 31 March	2,000,000		
	14,000,000	x 9/12	10,500,000
			<u>13,500,000</u>

Answer-23

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)		
20X6		
EPS	=	0.333 per share
2)		
20X7		
EPS	=	$\frac{5,000,000}{13,450,000}$
	=	0.372 per share
20X6 (Restated)		
EPS	=	0.333 x Reciprocal of Right issue of Bonus Fraction
	=	0.333 x 1.92/2
	=	0.32 per share

(W-1) Weighted average number of shares during 20X7

Date	Number of shares	Factor	Weighted average number
Opening Shares on 1 January	12,000,000	x 6/12 x 2/1.92	6,250,000
Right shares issued on 30 June (12,000,000/5 x 1)	2,400,000		
	14,400,000	x 6/12	7,200,000
			<u>13,450,000</u>

(W-2) Right issue bonus Fraction (Issued on 30 June)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= \frac{2}{1.92}$$

Theoretical ex-rights price

Before	(5 x Rs.2)	
New	(1 x 1.5)	
After	(6 x Rs.1.92(bal))	

Rs.

10

1.5

11.5**Answer-24**

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

2015

EPS

$$= \frac{5,860,000}{97,000}$$

$$= \text{Rs. 60.41 per share}$$

2)

2016

EPS

$$= \frac{5,860,000}{55,642}$$

$$= \text{Rs. 105.32 per share}$$

2015 (Restated)

EPS

$$= 60.41 \times \frac{8}{11} \times \frac{5}{8} \times \frac{8}{2}$$

$$= \text{Rs. 109.84 per share}$$

(W-1) Weighted average number of shares

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-12- 2015	97,000	$\times \frac{2}{12} \times \frac{2}{8} \times \frac{8}{5} \times \frac{11}{8}$	8.892
New share issue on 01-02- 2016	5,000		
Bonus shares issued on 01-04- 2016 (102,000/8 x 3)	102,000	$\times \frac{2}{12} \times \frac{2}{8} \times \frac{8}{5} \times \frac{11}{8}$	9.350
	38,250		
Share split on 30-06-2016 (140,250/5 x 3)	140,250	$\times \frac{3}{12} \times \frac{2}{8} \times \frac{8}{5}$	14,025
	84,150		
Share consolidation on 01-10-2016 (224,400/8 x 6)	224,400	$\times \frac{3}{12} \times \frac{2}{8}$	14,025
	(168,300)		
	56,100	$\times \frac{2}{12}$	9,350
			<u>55,642</u>

(W-2)

	Bonus share	Share split	Share consolidation
Before	8	5	8
New/(Lost)	3	3	(6)
After	11	8	2

Answer-25

Earnings per share

=

Earnings attributable to ordinary shareholders during a period
Weighted average number of shares in issue during the period

1)

2015

EPS

=

75,455,523

870,000

=

Rs. 86.73 per share

2)

2016

EPS

=

85,997,220

1,428,686

=

Rs. 60.19 per share

2015 (Restated)

EPS

=

86.73 x 10/3 x 7/12 x 3/9

=

Rs. 56.21 per share

(W-1) Weighted average number of shares

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-03- 2015	870,000	$\times 5/12 \times 3/10 \times 12/7 \times 9/3$	559,286
New share issue on 31-07- 2015	96,000		
	966,000	$\times 2/12 \times 3/10 \times 12/7 \times 9/3$	248,400
Share split on 30-09- 2015 (966,000/3 x 6)	1,932,000		
	2,898,000	$\times 2/12 \times 3/10 \times 12/7$	248,400
Bonus share issue on 01-12-2015 (2,898,000/7 x 5)	2,070,000		
	4,968,000	$\times 2/12 \times 3/10$	248,400
Share consolidation on 01-02-2016 (4,968,000/10 x 7)	(3,477,600)		
	1,490,400	$\times 1/12$	124,200
			<u>1,428,686</u>

(W-2)

	Share split	Bonus	Share consolidation
Before	3	7	
New/(Lost)	6	5	10
After	9	12	(7) 3

Answer - 26

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

2015

EPS = $\frac{86,546,354}{9,870,556}$
= Rs. 8.77 per share

2)

2016

EPS = $\frac{83,665,463}{84,337,784}$
= Rs. 0.99 per share

2015 (Restated)

EPS = $8.77 \times \frac{1}{7} \times \frac{7}{12} \times \frac{9}{6}$
= Rs. 1.096 per share

(W-1) Weighted average number of shares

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-10- 2015	9,870,556	$\times \frac{3}{12} \times \frac{7}{1} \times \frac{12}{7} \times \frac{6}{9}$	19,741,112
New share issue on 31-12- 2015	895,556		
	10,766,112	$\times \frac{1}{12} \times \frac{7}{1} \times \frac{12}{7} \times \frac{6}{9}$	7,177,408
Share Consolidation on 01-02- 2016 (10,766,112/9 x 3)	(3,588,704)		
	7,177,408	$\times \frac{4}{12} \times \frac{7}{1} \times \frac{12}{7}$	28,709,632
Bonus share issue on 01-06-2016(7,177,408/7x5)	5,126,720		
	12,304,128	$\times \frac{3}{12} \times \frac{7}{1}$	21,532,224
Share Split on 30-08-2016(12,304,128/1x6)	73,824,768		
	86,128,896	$\times \frac{1}{12}$	7,177,408
			<u>84,337,784</u>

(W-2)

	Share Consolidation	Bonus	Share Split
Before	9	7	1
New/(Lost)	(3)	5	6
After	6	12	7

Answer-27

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)

2015

EPS = $\frac{4,535,431}{9,870,556}$
= Rs.0.46 per share

2)		
2016		
EPS	=	$\frac{5,564,544}{12,301,507}$
	=	Rs. 0.45 per share
2015 (Restated)		
EPS	=	$0.46 \times \frac{9}{4} \times \frac{3}{7} \times \frac{5}{6}$
	=	Rs. 0.37 Per share

(W-1) Weighted average number of shares

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-07- 2015	9,870,556	$\times \frac{2}{12} \times \frac{4}{9} \times \frac{7}{3} \times \frac{6}{5}$	2,047,226
Share split on 30-08- 2015($9870556/5 \times 1$)	<u>1,974,111</u>		
	11,844,667	$\times \frac{4}{12} \times \frac{4}{9} \times \frac{7}{3}$	4,094,453
New shares on 31-12- 2015	<u>35,000</u>		
	11,879,667	$\times \frac{3}{12} \times \frac{4}{9} \times \frac{7}{3}$	3,079,914
Share split on 30-03-2016($11,879,667/3 \times 4$)	<u>15,839,556</u>		
	27,719,223	$\times \frac{1}{12} \times \frac{4}{9}$	1,026,638
Share Consolidation on 01-05-2016($27,719,223/9 \times 5$)	<u>(15,399,568)</u>		
	12,319,655	$\times \frac{2}{12}$	<u>2,053,276</u>
			<u>12,301,507</u>

(W-2)

	Share Split	Share split	Share Consolidation
Before	5	3	9
New/(Lost)	1	4	(5)
After	6	7	4

Answer-28

Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

1)		
2015		
EPS	=	$\frac{580,200}{97,000}$
	=	Rs.5.98 per share
2)		
2016		
EPS	=	$\frac{780,600}{43,623}$
	=	Rs.17.89 per share
2015 (Restated)		
EPS	=	$5.98 \times \frac{10.13}{12} \times \frac{8}{2} \times \frac{8}{11}$
	=	Rs. 14.68 Per share

(W-1) Weighted average number of shares

Date	Number of shares	Factor	Weighted average number
Opening Shares on 01-12-2015	97,000	$\times 2/12 \times 12/10.13 \times 2/8 \times 11/8$	6,583
New shares on 01-02-2016	5,000		
	102,000	$\times 2/12 \times 12/10.13 \times 2/8 \times 11/8$	6,923
Bonus shares on 01-04-2016 (102,000/8 x 3)	38,250		
	140,250	$\times 5/12 \times 12/10.13 \times 2/8$	17,306
Share Consolidation on 01-09-2016 (140,250/8 x 6)	(105,188)		
	35,062	$\times 1/12 \times 12/10.13$	3,461
Right share on 01-10-2016 (35,062/5 x 3)	21,037		
	56,099	$\times 2/12$	9,350
			<u>43,623</u>

(W-2)

	Bonus	Share Consolidation
Before	8	8
New/(Lost)	3	(6)
After	11	2

(W-3)

<u>Theoretical ex-rights price</u>		Rs.
Before	(5 x Rs. 12)	60
New/(Lost)	(3 x Rs. 7)	21
After	(8 x (Bal.)Rs. 10.13)	<u>81</u>

CHAPTER-07
EARNINGS PER SHARE
ICAP PAST PAPERS

Question-1

The following information pertains to the financial statements of Home Dynamics Limited (HDL), a listed company, for the year ended 31 December 2016:

(i) Profit after tax for the year:	Rs. in million
Profit from continuing operations – net of tax	765
Profit from discontinued operations – net of tax	155
Profit after tax	920

- (ii) Shareholders' equity as on 1 January 2016 comprised of:
- 10 million ordinary shares of Rs. 10 each, having market value of Rs. 25 each.
 - 4 million cumulative preference shares of Rs. 10 each entitled to a cumulative dividend at 10%.
- (iii) On 31 March 2016, HDL announced 40% right shares to its ordinary shareholders at Rs. 25 per share. The entitlement date of right shares was 31 May 2016. The market price per share immediately before the announcement date and entitlement date was Rs. 28 and Rs. 32 respectively.
- (iv) On 2 August 2016, HDL announced 20% bonus issue. The entitlement date of bonus shares was 31 August 2016.
- (v) On 1 February 2017, the board of directors announced 20% cash dividend and 10% bonus issue being the final dividend to the ordinary shareholders and 10% cash dividend for preference shareholders.

Required:

Calculate basic earnings per share for inclusion in HDL's financial statements for the year ended 31 December 2016. Show all relevant calculations.

(10)

[March-17, Q#1]

SOLUTIONS**Answer-1**

	<u>Continued operations</u>	<u>Discontinued operations</u>
Earnings attributable to ordinary shareholders during a period (W-5)	761,000,000	155,000,000
Weighted average number of shares in issue during the period (W-1)	16,646,666	16,646,666
EPS	45.71	9.31

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Factor $\times 5/12 \times 16/15 \times 120/100$ $\times 110/100$	Weighted average number
Opening Shares on 1 January	10,000,000		5,866,666
Right shares issued on 31 May 2016 (10,000,000/100 x 40)	4,000,000		
	14,000,000	$\times 3/12 \times 120/100 \times$ $110/100$	4,620,000
Bonus shares issued on 31 August 2016 (14,000,000/100 x 20)	2,800,000		
	16,800,000	$\times 4/12 \times 110/100$	6,160,000
			16,646,666

(W-2) Right issue bonus Fraction (Issued on 31 May)

$$= \frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$$

$$= \frac{32/30}{16/15}$$

Theoretical ex-rights price

		Rs.
Before	(100 x Rs.320)	3,200
New	(40 x Rs. 25)	1,000
After	(140 x Rs.30 (bal))	4,200

(W-3)

	Bonus issue
Before	100
New	20
After	120

(W-4)

	Bonus issue
Before	100
New	10
After	110

(W-5) Earnings attributable to ordinary shareholders during a period

Profit from continuing operations after tax		Rs. in million
Less: Preference dividends on irredeemable shares	(4 x 10 x 10%)	76
Profit net of Preference dividends		(4

CHAPTER-07
EARNINGS PER SHARE
ICAP QUESTION BANK

Question-1

Mr Hamad, currently owns 20 million shares in Aircon Ltd. He recently received the published financial statements of Aircon Ltd for the year ended 31 March 2016. Mr Hamad is not sure how the performance of the company during the year will affect the market value of the entity's shares but he is aware that the earnings per share statistics are often used by analysts in assessing the performance of listed companies. Extracts from these published financial statements and other relevant information are given below.

Statement of profit or loss for the period ended 31 March 2016

	2016 Rs.'m	2015 Rs.'m
Revenue	18,000	15,300
Cost of sales	(11,340)	(9,180)
Gross profit	6,660	6,120
Operating expenses	(3,420)	(3,240)
Operating profit	3,240	2,880
Interest payable	(540)	(576)
Profit before tax	2,700	2,304
Taxation	(846)	(720)
Profit after tax	1,854	1,584

Statement of financial position as at 31 March 2016

	2016 Rs.'m	2015 Rs.'m
Assets		
Intangible assets	5,400	-
Tangible assets	7,200	6,660
	12,600	6,660
Current Assets		
Inventory	2,340	1,800
Receivables	2,700	2,160
Cash in bank	180	162
	5,220	4,122
	17,820	10,782
Capital and Reserves		
Share Capital	2,700	900
Share Premium	4,860	900
Retained Earnings	1,620	1,206
	9,180	3,006
Current Liabilities		
Trade Payables	3,060	2,160
Taxation	900	756
Bank Overdraft	1,080	1,260
	5,040	4,176
15% Loan Note	3,600	3,600
	17,820	10,782

The following information is also relevant:

- (i) The share capital of the company comprises Rs.1 equity shares only.
- (ii) On 1 October 2015, the company made a rights issue to existing shareholders of two new shares for every one share held at a price of Rs.5.94 per share and paid issue cost of Rs.180,000.
- (iii) The market price of shares immediately before the rights issue was Rs.6.30 per share.
- (iv) No other changes took place in the equity capital of Aircon Ltd in the year ended 31 March 2016.

Required

- (a) Compute EPS for the year and the comparative figures that will be included in the published financial statements of Aircon Ltd for the year ended 31 March 2016.
- (b) Using the extracts you have been provided with, write a report to Mr Hamad identifying the key factors which led to the change in the EPS of Aircon Ltd since the year ended 31 March 2016.
- (c) Comment on the relevance of the EPS statistics to shareholders.

[ICAP Question Bank 14.1]

SOLUTIONS**Answer-1**

(a) Earnings per share = $\frac{\text{Earnings attributable to ordinary shareholders during a period}}{\text{Weighted average number of shares in issue during the period}}$

2016

EPS = $\frac{1,854}{1,818}$
= Rs.1.02 per share

2015 (Restated)

EPS = $1.76 \times \text{Reciprocal of Right issue bonus Fraction}$
= $1.76 \times 6.06/6.30$
= Rs.1.69 per share

(W-1) Weighted average number of shares during 2016

Date	Number of shares	Time factor	'Million' Weighted average number
Opening Shares on 1 April	900	$\times 6/12 \times 6.30/6.06$	468
Rights share issue on 1 October 2016 ($900/1 \times 2$)	1,800		
	2,700	$\times 6/12$	1,350
			<u>1,818</u>

(W-2) Right issue bonus Fraction (Issued on 1 October)

= $\frac{\text{Actual cum rights price}}{\text{Theoretical ex rights price}}$
= $6.30/6.06$

Theoretical ex-rights price

		Rs.
Before	(1 x Rs.6.30)	6.30
New	(2 x Rs.5.94)	11.88
After	(3 x Rs.6.06(bal))	<u>18.18</u>

(W-3)**2015**

EPS = $\frac{1,584}{900}$
= Rs.1.76 per share

(b) Report

To: Mr Hamad
From: Management Accountant
Date: 15 April 2016

Subject: Evaluating the changes in EPS of Aircon Ltd.

The key factors which has led to changes in the EPS of Aircon Ltd. are as follows:

Revenue and profitability. Revenue increased by Rs.2,700 million (15%) as compared to last year, but the gross profit and net profit ratios have not increased proportionately.

The gross profit percentage fell from 40% to 37% in 2016, while the net profit percentage remained constant at 10%.

Factors responsible for the decline might be due to the inability of the entity to maintain good profit margin. The more funds realised from the rights issue did not lead to any significant increase in return on capital employed which fell from 44% in 2015 to 25% in 2016.

The increase in share capital Rs.5,760 [16:(2,700 + 4,860) - 15: (900 + 900)] million of new finance was largely used to acquire intangible assets. It is hoped that this asset will start generating substantial returns in the near future. EPS has therefore fallen from Rs.1.69 in 2015 to Rs.1.01 in 2016.

Signed
Management Accountant

APPENDIX TO THE REPORT

The ratios that are relevant to discussion and evaluation of changes in EPS of Aircon Ltd are those that relate to profitability and return on capital employed.

TABLE OF RATIOS

Ratio	Formula	2016
Change in Revenue	$\frac{\text{Current Year} - \text{Previous year}}{\text{Current Year}} \times 100$	$\frac{18,000 - 15,300}{15,300} \times 100$ = 18% increase

Ratio	Formula	2016	2015
Net profit after tax	$\frac{\text{Profit After Tax}}{\text{Net Sales}} \times 100 = \dots\%$	$\frac{1,854}{18,000} \times 100 = 10\%$	$\frac{1,584}{15,300} \times 100 = 10\%$
GP ratio	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$	$\frac{6,660}{18,000} \times 100 = 37\%$	$\frac{6,120}{15,300} \times 100 = 40\%$
Cost of sale ratio	$\frac{\text{Cost of sale}}{\text{Net sales}} \times 100 = \dots\%$	$\frac{11,340}{18,000} \times 100 = 63\%$	$\frac{9,180}{15,300} \times 100 = 60\%$

Operating Expense ratio	$\frac{\text{Operating Expense}}{\text{Net sales}} \times 100 = \dots\%$	$\frac{3,420}{18,000} \times 100 = 19\%$	$\frac{3,240}{15,300} \times 100 = 21\%$
Return on capital employed	$\frac{\text{Profit before interest \& tax}}{\text{Avg capital employed}} \times 100$	$\frac{3,240}{9,180 + 3,600} \times 100 = 25\%$	$\frac{2,880}{3,006 + 3,600} \times 100 = 44\%$
Asset turnover ratio	$\frac{\text{Net Sales}}{\text{Average Capital Employed}}$	$\frac{18,000}{9,180 + 3,600} = 1.41 \text{ times}$	$\frac{15,300}{3,006 + 3,600} = 2.32 \text{ times}$
Interest to sales ratio	$\frac{\text{Interest payable}}{\text{Net sale}} \times 100$	$\frac{540}{18,000} \times 100 = 3\%$	$\frac{576}{15,300} \times 100 = 3.8\%$
Taxation to sales ratio	$\frac{\text{Taxation}}{\text{Net sale}} \times 100$	$\frac{846}{18,000} \times 100 = 5\%$	$\frac{720}{15,300} \times 100 = 5\%$

(C) Relevance of EPS to shareholders:

The EPS is used to compute the price earning (P/E) ratio, a major market indicator to determine how successful a company has been operating.

- (i) The price earning figure is a multiple of the EPS. Better the P/E ratio better the company is.
- (ii) Rising trend in EPS is a more accurate performance indicator than rising trend in profit after tax (because of considering only profit from continuing operations).
- (iii) EPS is a measure of performance from the existing and potential investors' perspective.
- (iv) EPS show the amount available to each ordinary shareholder thereby indicating the potential returns on individual investment.
- (v) EPS is used to compare the activities of two entities in the same industry (however EPS has some limitations as well).

CHAPTER 7

IAS 33

MULTIPLE CHOICE QUESTIONS

01. Anum Limited had 1 million ordinary shares of Rs. 10 each in issue throughout the year ended 30 June 20X3. On 1 July 20X2 it had issued Rs. 2 million of 6% convertible debentures, each Rs. 100 of debenture is convertible into 8 ordinary shares on 1 July 20X6 at the option of the holder. Anum Limited had profit after tax for the year ended 30 June 20X3 of Rs. 1,850,000. It pays tax on profits at 30%. What was diluted EPS for the year ended 30 June 20X3?
- (a) Rs. 1.67 (b) Rs. 1.85
(c) Rs. 1.61 (d) Rs. 1.70
02. Zahra Limited's basic EPS for the year ended 30 June 20X1 was Rs. 6 per share. Which of the following issue during the year during the year ended 30 June 20X2 would result in restated comparative basic EPS (for the year ended 30 June 20X1) of more than Rs. 6?
- (a) Right issue
(b) Bonus issue
(c) Share split
(d) Share consolidation / Reverse share split
03. Hania Limited has correctly calculated its basic earnings per share (EPS) for the current year. Which of the following items need to be additionally considered when calculating the diluted EPS of Hania Limited for the year?
- (i) A 1 for 5 rights issue of equity shares during the year at Rs. 12 when market price of equity shares was Rs. 18.
(ii) The issue during the year of a convertible debentures
(iii) Issue of directors' share options exercisable in three years' time
(iv) Equity shares issued during year as the purchase consideration for acquisition of plant & machinery
- (a) All four (b) (i) and (ii) only
(c) (ii) and (iii) only (d) (iii) and (iv) only
04. Many analyst believe that the trend of earnings per share (EPS) is a more reliable indicator of underlying performance than the trend of net profit for the year. Which of the following statements supports this view?
- (a) Net profit can be manipulated by the choice of accounting policies but EPS cannot be manipulated in this way.
(b) EPS takes into account the additional resources made available to earn profit when new shares are issued for cash, whereas net profit does not.
(c) The disclosure of a diluted EPS figure is a forecast of the future trend of profit.
(d) The comparative EPS is restated where a change of accounting policy affects the previous year's profits.
05. At 1 January 20X8 Maria Limited had 5 million Rs. 10 equity shares in issue. On 1 June 20X8 made a 1 for 5 rights issue at a price of Rs. 15. The market price of the shares before right issue was Rs. 18. Total earnings for the year ended 31 December 20X8 was Rs. 7.6 million. What is basic EPS for the year ended 31 December 20X8?
- (a) Rs. 1.35 (b) Rs. 1.36
(c) Rs. 1.27 (d) Rs. 1.06

06. Gulfishan Limited (GL) had profits after tax of Rs. 30 million in the year ended 31 December 20X7.
On 1 January 20X7, GL had 2.4 million ordinary shares in issue. On 1 April 20X7 it made a 1 for 2 rights issue at a price of Rs. 14 when the market price of Garfish's shares was Rs. 20 before right issue.
What is the basic EPS for the year ended 31 December 20X7?
(a) Rs. 4.95 (b) Rs. 8.90
(c) Rs. 9.12 (d) Rs. 9.26
07. On 1st January 20X4, Sameen Limited had 3 million ordinary shares in issue. On 1st June 20X4, Sameen Limited made a 1 for 3 bonus issue. On 30th September 20X4, Sameen Limited then issued a further 1 million shares at full market price. Sameen Limited had profits attributable to ordinary shareholders of Rs. 20 million for the year ended 31st December 20X4.
What is the basic EPS for the year ended 31st December 20X4?
(a) Rs. 4.71 (b) Rs. 4.29
(c) Rs. 4.93 (d) Rs. 5.22
08. During the year, Mariam Limited made a 1 for 3 rights issue at Rs. 16 when the market price was Rs. 22. The previous year's financial statements showed an earnings per share figure of Rs. 4. There were no other issues of shares during the year.
What will the restated earnings per share figure be for comparative purposes in the current year financial statements?
(a) Insufficient data for calculation (b) Rs. 3.73
(c) Rs. 4.00 (d) Rs. 4.29
09. Saba Limited has net profit for the year ended 30 June 20X5 of Rs. 10.5 million. Saba Limited has had 6 million shares in issue for many years. In the current year, Saba Limited has issued a convertible bond. It was issued at its nominal value of Rs. 2.5 million and carries an effective interest rate of 8%.
The bond is convertible in five years in 50 shares for each Rs. 100 of the bond. Saba Limited pays tax at a rate of 30%.
What is the Basic EPS and Diluted EPS for the year ended 30 June 20X5?
(a) Basic EPS Rs. 1.70 and Diluted EPS Rs. 1.50
(b) Basic EPS Rs. 1.75 and Diluted EPS Rs. 1.70
(c) Basic EPS Rs. 1.70 and Diluted EPS Rs. 1.55
(d) Basic EPS Rs. 1.75 and Diluted EPS Rs. 1.47
10. Alia Limited's (AL) financial statements show a profit for the year of Rs. 20 million. On 1 January 20X5, AL had 4 million shares in issue.
There were no new issues of shares in the year, but there were 1 million outstanding options to buy shares for Rs. 30 each. For the year to 31 December 20X5, the average market value of AL's shares was Rs. 50.
What is AL's Diluted EPS for the year ended 31 December 20X5?
(a) Rs. 3.00 (b) Rs. 4.35
(c) Rs. 4.55 (d) Rs. 4.00
11. Which of the following statements in relation to the term 'dilution' is/are true or false, as per IAS 33 Earnings per share?
1) A reduction in earnings per share is an example of dilution.
2) A reduction in loss per share is an example of dilution.
(a) Both statements are false
(b) Statement 2 is true and statement 1 is false
(c) Statement 1 is true and statement 2 is false
(d) Both statements are true

CHAPTER 8

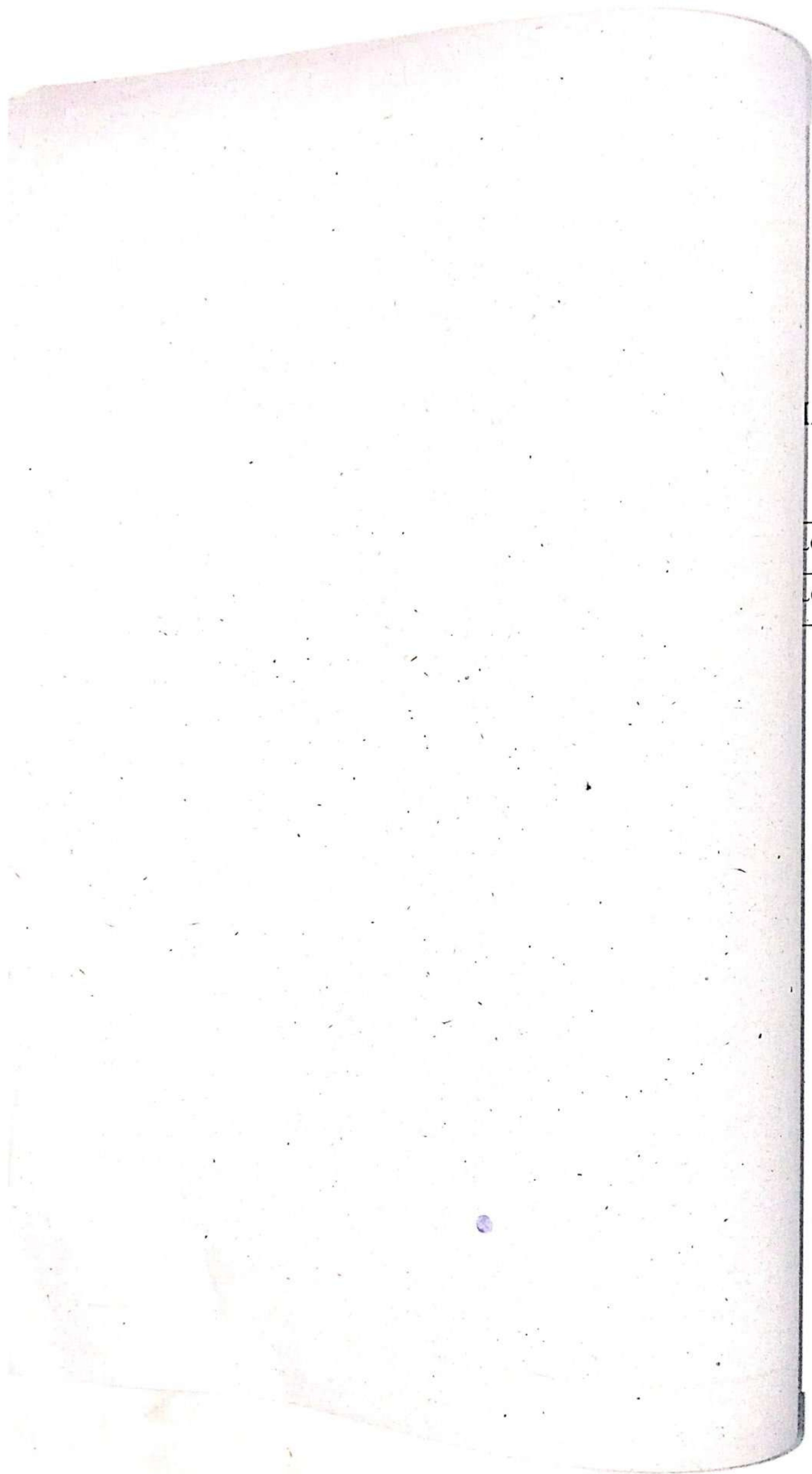
12. Which TWO of the following items must be disclosed, as per IAS 33 Earnings per share?
- Forecast earnings per share for the following financial year
 - A five-year trend analysis of earnings per share
 - The weighted average number of ordinary shares used to calculate earnings per share
 - The earnings figures used in calculating basic and diluted earnings per share
13. Which of the following statements is/are true or false, according to IAS 33 Earnings per share?
- Earnings per share amounts should not be presented if they are negative, i.e. losses per share.
 - Earnings per share amounts calculated for discontinued operations should be presented.
- Both statements are false
 - Statement 1 is false and statement 2 is true
 - Statement 1 is true and statement 2 is false
 - Both statements are true
14. Pareesa Limited issued new ordinary shares for cash at full market price and also made a 1 for 8 bonus issue.
Are the following statements true or false, according to IAS 33 Earnings per share?
- New shares issued as a result of bonus issue should be time apportioned from their date of issue.
 - New shares issued for cash at full market price should be time apportioned from their date of issue.
- Both statements are false
 - Statement 1 is false and statement 2 is true
 - Statement 1 is true and statement 2 is false
 - Both statements are true
15. Salma Limited (SL) is a company listed on a Pakistan Stock Exchange. Given below is an extract from its statement of comprehensive income for the year ended 31 December 20X7.
- | | |
|-------------------|------------------|
| | Rs. |
| Profit before tax | 5,700,000 |
| Tax expense | (1,500,000) |
| Profit after tax | <u>4,200,000</u> |
- SL paid during the year an ordinary dividend of Rs. 400,000 and a dividend on its redeemable preference shares of Rs. 500,000. These have been correctly accounted for in the financial statements.
- SL had ordinary share capital of Rs. 2,000,000 (Rs. 10 each) throughout the year and authorised share capital of Rs. 10,000,000 (Rs. 10 each).
- What is basic EPS for the year ended 31 December 20X7?
- Rs. 21
 - Rs. 19
 - Rs. 38
 - Rs. 42
16. Shaista Limited is a company listed on Pakistan Stock Exchange. Its financial statements for the year ended 31 December 20X7 showed EPS of Rs. 8.5 per share.
On 1 July 20X8 Shaista Limited made a 1 for 3 bonus issue.
What figure for the 20X7 earnings per share will be shown as comparative information in the financial statements for the year ended 31 December 20X8?
- Rs. 2.13
 - Rs. 2.55
 - Rs. 6.38
 - Rs. 2.83

17. Simba Limited is a listed company. At 31 December 20X7, it had ordinary share capital of Rs. 2,000,000 (Rs. 10 each). Profit before tax for the year was Rs. 500,000 and the tax charge was Rs. 125,000.
What is Simba Limited's basic EPS for the year?
- | | |
|--------------|--------------|
| (a) Rs. 2.50 | (b) Rs. 3.75 |
| (c) Rs. 2.58 | (d) Rs. 1.88 |
18. Muntaha Limited (ML) is listed on Pakistan Stock Exchange. During the year ended 31 December 20X7, the company had 5 million ordinary shares of Rs.10 each and 500,000 6% irredeemable preference shares of Rs. 10 in issue. The profit after tax for the year 20X7 was Rs. 6,000,000.
What is ML's basic EPS for the year?
- | | |
|--------------|--------------|
| (a) Rs. 1.14 | (b) Rs. 1.09 |
| (c) Rs. 1.60 | (d) Rs. 1.20 |
19. Mansha Limited had 100,000 equity shares in issue on 1 January 20X7. On 1 July 20X7 it issued 20,000 new shares by way of a 1 for 5 bonus issue. On 1 October 20X7 it issued 28,000 new shares for cash at full market price.
What is weighted average number of shares for calculation of basic EPS?
- | | |
|--------------------|--------------------|
| (a) 100,000 shares | (b) 117,000 shares |
| (c) 148,000 shares | (d) 127,000 shares |
20. Which of the following need not be adjusted in profit after tax, for calculation of basic EPS?
- | |
|---|
| (a) Redeemable preference share dividends |
| (b) Irredeemable preference share dividends |
| (c) Ordinary (final) dividends |
| (d) Ordinary (interim) dividends |

MCQS SOLUTIONS

01.	(a)	<p>Basic EPS = Rs. 1,850,000 / 1,000,000 shares = Rs. 1.85</p> <p>Incremental earnings = Rs. 2,000,000 x 6% x 70% = Rs. 84,000</p> <p>Incremental shares = Rs. 2,000,000 / 100 x 8 shares = 160,000 shares</p> <p>Diluted EPS = [Rs. 1,850,000 + 84,000] / [1,000,000 + 160,000 shares] = Rs. 1.67</p>												
02.	(d)	<p>Share consolidation/ reverse share split would result in lower number of denominator (shares) leading to higher comparative EPS than reported earlier.</p> <p>All other issues would result in higher number of shares (denominator) resulting in lower comparative EPS than reported earlier.</p>												
03.	(c)	The convertible loan note and the share options should be taken into account when calculating diluted EPS. Other items would have been incorporated in calculation of basic EPS already.												
04.	(b)	EPS takes into account the additional resources made available to earn profit when new shares are issued for cash, whereas net profit does not.												
05.	(a)	<p>TERP = $[(5 \times 18) + (1 \times 15)] / (5 + 1) = \text{Rs. } 17.5 \text{ per share}$</p> <p>Right issue bonus fraction = $18 / 17.5$</p> <p>Weighted average shares</p> <table> <tr> <td>January to May</td> <td>5 million x 5/12 x 18/17.5</td> <td>= 2.14 million</td> </tr> <tr> <td>June to December</td> <td>6 million x 7/12</td> <td>= 3.50 million</td> </tr> <tr> <td>Total</td> <td></td> <td>= 5.64 million</td> </tr> </table> <p>Basic EPS = Rs. 7.6 million / 5.64 million shares = Rs. 1.35</p>	January to May	5 million x 5/12 x 18/17.5	= 2.14 million	June to December	6 million x 7/12	= 3.50 million	Total		= 5.64 million			
January to May	5 million x 5/12 x 18/17.5	= 2.14 million												
June to December	6 million x 7/12	= 3.50 million												
Total		= 5.64 million												
06.	(b)	<p>TERP = $[(2 \times 20) + (1 \times 14)] / (2 + 1) = \text{Rs. } 18 \text{ per share}$</p> <p>Right issue bonus fraction = $20 / 18$</p> <p>Weighted average shares</p> <table> <tr> <td>January to March</td> <td>2.4 million x 3/12 x 20/18</td> <td>= 0.67 million</td> </tr> <tr> <td>April to December</td> <td>3.6 million x 9/12</td> <td>= 2.70 million</td> </tr> <tr> <td>Total</td> <td></td> <td>= 3.37 million</td> </tr> </table> <p>Basic EPS = Rs. 30 million / 3.37 million shares = Rs. 8.90</p>	January to March	2.4 million x 3/12 x 20/18	= 0.67 million	April to December	3.6 million x 9/12	= 2.70 million	Total		= 3.37 million			
January to March	2.4 million x 3/12 x 20/18	= 0.67 million												
April to December	3.6 million x 9/12	= 2.70 million												
Total		= 3.37 million												
07.	(a)	<p>Bonus issue fraction = $4 / 3$</p> <p>Weighted average shares</p> <table> <tr> <td>January to May</td> <td>3 million x 5/12 x 4/3</td> <td>= 1.67 million</td> </tr> <tr> <td>June to September</td> <td>4 million x 4/12</td> <td>= 1.33 million</td> </tr> <tr> <td>October to December</td> <td>5 million x 3/12</td> <td>= 1.25 million</td> </tr> <tr> <td>Total</td> <td></td> <td>= 4.25 million</td> </tr> </table> <p>Basic EPS = Rs. 20 million / 4.25 million shares = Rs. 4.71</p>	January to May	3 million x 5/12 x 4/3	= 1.67 million	June to September	4 million x 4/12	= 1.33 million	October to December	5 million x 3/12	= 1.25 million	Total		= 4.25 million
January to May	3 million x 5/12 x 4/3	= 1.67 million												
June to September	4 million x 4/12	= 1.33 million												
October to December	5 million x 3/12	= 1.25 million												
Total		= 4.25 million												
08.	(b)	<p>TERP = $[(3 \times 22) + (1 \times 16)] / (3 + 1) = \text{Rs. } 20.5 \text{ per share}$</p> <p>Right issue bonus fraction = $22 / 20.5$</p> <p>Basic EPS (restated comparative) = $\text{Rs. } 4 \times 20.5 / 22 = \text{Rs. } 3.73$</p>												
09.	(d)	<p>Basic EPS = Rs. 10.5 million / 6 million shares = Rs. 1.75</p> <p>Incremental earnings = Rs. 2.5 million x 8% x 70% = Rs. 0.14 million</p> <p>Incremental shares = Rs. 2.5 million / 100 x 50 = 1.25 million</p> <p>Diluted EPS = $(\text{Rs. } 10.5\text{m} + 0.14\text{m}) / (6\text{m} + 1.25\text{m shares}) = \text{Rs. } 1.47$</p>												

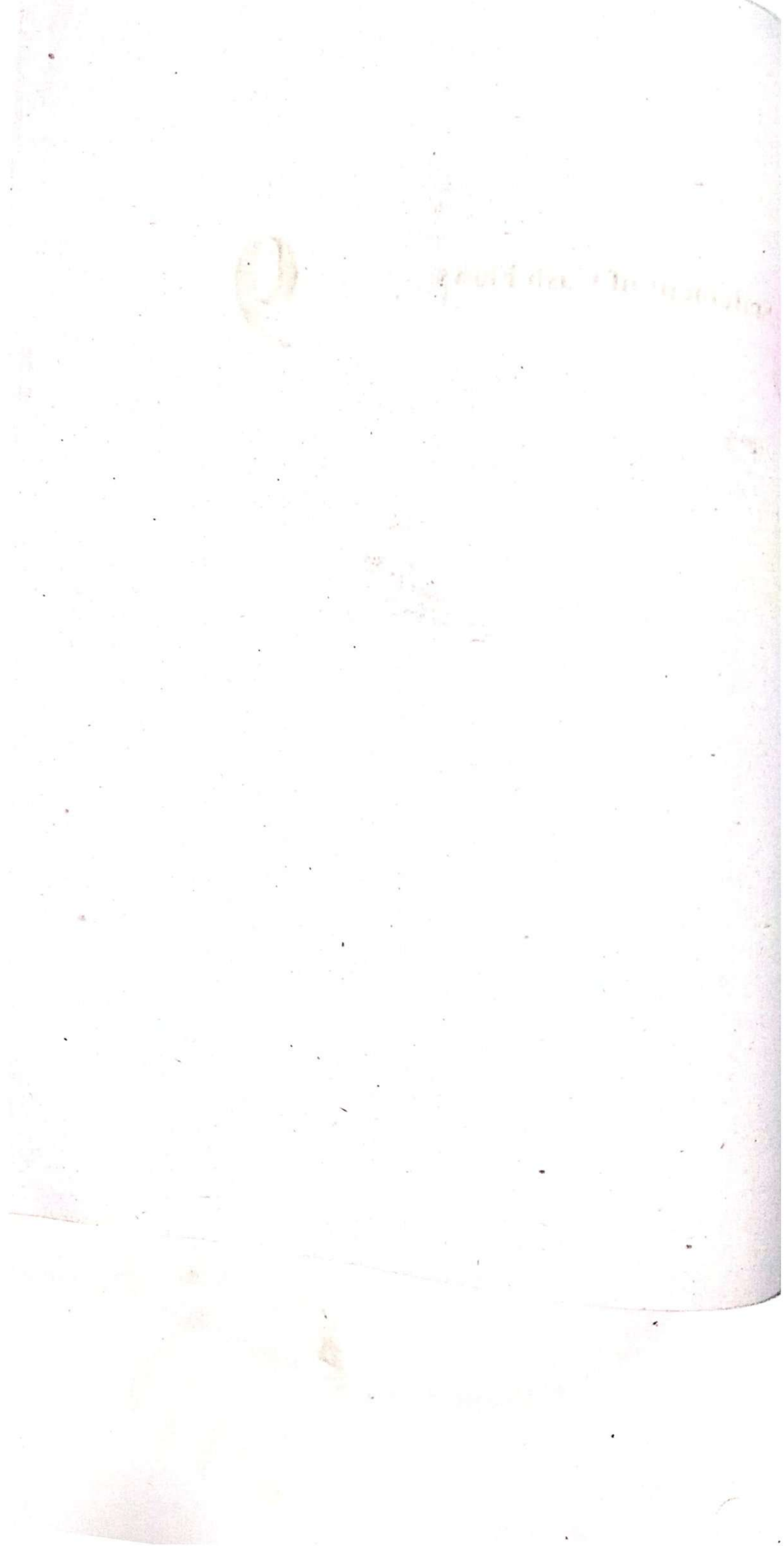
10.	(c)	Free shares = $1,000,000 \times (50 - 30) / 50 = 400,000$ shares Diluted EPS = $\text{Rs. } 20,000,000 / (4,000,000 + 400,000 \text{ shares}) = \text{Rs. } 4.55$
11.	(c)	A reduction in earnings per share is an example of dilution, but a reduction in loss per share is an example of anti-dilution.
12.	(c) & (d)	The earnings figures and the weighted average number of shares are required to be disclosed. Future forecasts and trend analysis are not required.
13.	(b)	EPS is to be presented even if negative (i.e. loss per share), so statement 1 is false. EPS for discontinued operations should be presented separately as well, so statement 2 is true.
14.	(b)	Bonus shares provide no additional consideration to the issuer, so they are not time-apportioned.
15.	(a)	The redeemable preference share dividend is recognised as a finance cost and deducted at arriving at profit before tax. Basic EPS = $\text{Rs. } 4,200,000 / 200,000 \text{ shares} = \text{Rs. } 21$
16.	(c)	Bonus issue fraction = $4 / 3$ $\text{Rs. } 8.5 \text{ per share} \times 3 / 4 = \text{Rs. } 6.38 \text{ per share}$
17.	(d)	Basic EPS = $(\text{Rs. } 500,000 - \text{Rs. } 125,000) / 200,000 \text{ shares} = \text{Rs. } 1.88$
18.	(a)	Basic EPS = $(\text{Rs. } 6,000,000 - (6\% \times \text{Rs. } 5,000,000)) / 5,000,000 \text{ shares} = \text{Rs. } 1.14$
19.	(d)	Bonus issue is not time-apportioned while issue at full market price is time-apportioned. The weighted average is $100,000 + 20,000 + (28,000 \times 3/12) = 127,000$.
20.	(a)	Redeemable preference dividends will already have been removed from net profit when arriving at this figure in a profit or loss account. Therefore, this adjustment is not necessary.



IAS 7: Statement of Cash Flows

9

LO 1	PREPARING CASH FLOW USING INDIRECT METHOD
LO 2	PREPARING CASH FLOW USING DIRECT METHOD



LO1: PREPARING CASH FLOW USING INDIRECT METHOD**Cash flow from Operating Activities**

Profit/(loss) before tax

Adjustments for:

Depreciation / Amortization

(Gain)/loss on sale of fixed assets

(Gain)/loss on sale of long term investments

Interest income/investment income

Interest expense

Operating cash flow before working capital changes

Adjustment for working capital changes

(Increase)/decrease in current assets

(Increase)/decrease in inventories

(Increase)/decrease in trade receivable (net)/bill receivable

(Increase)/decrease in prepayments

(Increase)/decrease in stationery/loose tools/office supplies etc.

Increase/(Decrease) in current liabilities

Increase/(decrease) in creditors/bills payable

Increase/(decrease) in accrued expenses

Working capital changes

Cash generated from operations

Less:

Interest paid

Income tax paid

Dividend paid

Net Cash from operating activities

A**Cash flow from Investing Activities**

Purchase of non-current assets

Sale proceeds from disposal of fixed assets

Purchase of long term investment

Sale proceeds of long term investments

Interest received

Net Cash from investing activities

B**Cash flow from Financing Activities**

Proceed from issue of share capital (including difference in share premium a/c)

Long term loan raised/repaid

Net cash from financing activities

C

Net increase in cash and cash equivalents

(A+B+C)

Add: cash and cash equivalents at beginning of period

(W-1)

Cash and cash equivalents at end of period

(W-1)

(W-1) Cash and cash equivalents

2011

2010

Bank

Cash

Short term investment

- Short term running finance/short term loan

- Bank overdraft

Following accounts must be prepared in indirect method:

1. Share capital
2. Share premium
3. Retained earning
4. Dividend payable
5. Long term loan a/c
6. Property, plant and equipment
7. CWIP
8. Disposal account
9. Long term investment (and Entry of disposal of long term investment)
10. Income tax expense
11. Interest expense

LO2: PREPARING CASH FLOW USING DIRECT METHOD**Cash flow from Operating Activities**

Cash received from customers

(Note 1)

Cash paid to creditors/suppliers

(Note 2)

Cash paid for expenses

(Note 3)

Less:

Interest paid

(Note 4)

Income tax paid

Dividend paid

Net Cash from operating activities

A

Cash flow from Investing Activities

Purchase of non-current assets

Sale proceeds from disposal of fixed assets

Purchase of long term investment

Sale proceeds of long term investments

Interest received

Net cash from investing activities

B

Cash flow from Financing Activities

Proceed from issue of share capital (including difference in share premium a/c)

Long term loan raised/repaid

Net cash from financing activities

C

Net increase in cash and cash equivalents

(A+B+C)

Add: cash and cash equivalents at beginning of period

(W-1)

Cash and cash equivalents at end of period

(W-1)

(W-1) Cash and cash equivalents

	2011	2010
Bank		
Cash		
Short term investment		
- Short term running finance/short term loan		
- Bank overdraft		
	-	-

Note-1 For calculating the cash received from debtors, debtors account as below will be prepared.

Dr.	Debtors account	Cr.
Op.	xxx	
	Cash and bank (bal.)	xxx
Sales (cash + credit)	xxx	
	cl.	xxx

Note-2 For calculating the cash payments to creditors, creditor account as below will be prepared.

Dr.	Creditor account	Cr.
	Op.	xxx
Cash and bank (bal.)	xxx	Purchases (cash + credit)
cl.	xxx	xxx

Note-3 For calculating the cash paid, expenses account as below will be prepared.

Dr.	Expense account	Cr.
b/d prepayments	xxx	b/d accruals
b/d stationery/office Supplies etc	xxx	
Cash and bank (bal.)	xxx	P/L (N-3.1)
		c/d prepayments
c/d accruals	xxx	c/d stationery/office Supplies etc
		xxx

(N-3.1) (Admin expenses + selling expenses – depreciation – loss on sale of fixed asset and loss on sale of long term investment)

Note-4 For calculating the cash paid, interest expense a/c as below will be prepared.

Dr.	Interest expense	Cr.
	Opening payable	xxx
Cash and bank (bal.)	xxx	P/L (expense for the year)
		xxx
Closing payable	xxx	

PRACTICE QUESTIONS**Question-1****Profit and loss for the year ended December 31, 2007**

Sales
 Less:
 Opening stock
 Purchases
 Closing Stock
 Cost of sales
 Gross profit
 Less: Expenses
 Salaries
 Rent expense
 Advertisement expense
 Provision for doubtful debt
 Depreciation
 Interest expense

Profit for the year

2007
50,000

3,000
15,000
(4,000)
(14,000)
36,000

4,000
2,000
15,000
400
6,550
800
(28,750)
7,250

Balance sheet as on December 31**Assets**

Fixed assets
 Less: Accumulated depreciation

Long term investments

Current assets

Stock
 Debtors
 Less: Provision for doubtful debt
 Short term investment
 Prepayments
 Cash
 Bank (account 1)

Capital and Liabilities**Capital**

Capital account

Non Current Liabilities

Loan

2007

50,000
(13,870)
36,130

7,000

4,000
11,000
(800)
10,000
1,600
600
3,000
29,400
72,530

2006

35,000
(7,320)
27,680

5,000

3,000
8,000
(400)
5,000
2,000
1,200
700
19,500
52,180

48,130

10,000

30,080

9,000

Current Liabilities

Creditors

Bank overdraft (account 2)

Interest payable

Accruals

7,000	8,000
3,000	1,000
400	800
4,000	3,300
14,400	13,100
<u>72,530</u>	<u>52,180</u>

Required:

- A. Prepare cash flow statement using indirect method.
 B. Calculate cash flow from operating activities using direct method.

(16)

Question-2**Profit and loss for the year ended December 31, 2009**

Sales	2009
Less:	400,000
Op. stock	
Purchases	25,000
Cl. Stock	130,000
Cost of sales	(27,000)
Gross profit	(128,000)
Less: Expenses	272,000
Salaries	
Rent expense	25,000
Advertisement expense	35,000
Provision for doubtful debt	28,000
Depreciation	2,000
Interest expense	14,850
	7,500
Profit for the year	(112,350)
	<u>159,650</u>

Balance sheet as on December 31

Assets	2009	2008
Fixed assets	825,000	650,000
Less: Accumulated depreciation	(40,330)	(25,480)
	784,670	624,520
Long term investments	150,000	120,000
Current assets		
Stock	27,000	25,000
Debtors	47,000	85,000
Less: Provision for doubtful debt	(9,480)	(7,480)
Short term investment	15,000	10,000
Prepayments	2,000	4,500
Cash	3,400	6,000
Bank (account 1)	5,800	4,500
	90,720	127,520
	<u>1,025,390</u>	<u>872,040</u>

Balance sheet as on December 31

	2009	2008
Assets		
Fixed assets	1,745,000	1,540,315
Less: Accumulated depreciation	(460,520)	(425,680)
	<u>1,284,480</u>	<u>1,114,635</u>
	325,000	315,400
Long term investments		
Current assets		
Stock	205,000	175,000
Debtors	135,900	225,000
Less: Provision for doubtful debt	(28,850)	(16,850)
Short term investment	12,000	25,000
Prepayments	7,400	8,500
Cash	9,500	7,500
Bank (account 1)	23,000	17,000
	<u>363,950</u>	<u>441,150</u>
	<u>1,973,430</u>	<u>1,871,215</u>
Capital and Liabilities		
Capital		
Capital account	1,110,830	1,251,615
Non Current Liabilities		
Loan	450,000	350,000
Current Liabilities		
Creditors	345,000	225,000
Bank overdraft (account 2)	55,000	35,000
Interest payable	3,500	2,500
Accruals	9,100	7,100
	<u>412,600</u>	<u>269,600</u>
	<u>1,973,430</u>	<u>1,871,215</u>

Additional information

1. Drawings were made amounting to Rs. 553,985
2. Part of fixed assets costing Rs. 225,000 was sold for Rs. 120,000. Accumulated depreciation of the asset was Rs. 25,000
3. Investment costing Rs. 50,000 was sold for Rs. 70,000.

Required:

- A. Prepare cash flow statement using indirect method.
- B. Prepare cash flow from operating activities using direct method.

(14)

Question-5Profit and loss for the year ended December 31, 2007

	2007
Sales	40,000
Less:	
Op. stock	4,000
Purchases	13,000
Cl. Stock	(2,000)
Cost of Sales	<u>(15,000)</u>
Gross profit	<u>25,000</u>

Less: Expenses

Salaries	2,000
Rent expense	3,000
Advertisement expense	8,000
Provision for doubtful debt	200
Depreciation	4,745
Net loss on sale of assets	1,000
Loss on sale of investments	800
Interest expense	600
	(20,345)
Profit for the year	4,655

Balance sheet as on December 31**Assets**

	2007	2006
Fixed assets	30,000	20,000
Less: Accumulated depreciation	(6,000)	(4,000)
	24,000	16,000

Long term investments	6,000	4,000
-----------------------	-------	-------

Current assets

Stock	2,000	4,000
Debtors	9,000	6,000
Less: Provision for doubtful debt	(800)	(600)
Short term investment	200	100
Prepayments	800	1,000
Cash	300	600
Bank (account 1)	3,000	700
	14,500	11,800
	44,500	31,800

Capital and Liabilities**Capital**

Capital account	29,300	18,100
-----------------	--------	--------

Non current liabilities

Loan	5,000	4,000
------	-------	-------

Current Liabilities

Creditors	5,000	6,000
Bank overdraft (account 2)	1,000	-
Interest payable	200	400
Accruals	4,000	3,300
	10,200	9,700
	44,500	31,800

Other information:

1. Drawings during the period amounted to Rs.10,000
2. One-fourth of opening investments were sold during the year.
3. Loan amounting to Rs.3,000 is raised.
4. Loss on sale of assets comprised of the following:

Date of purchase	Date of sale	Cost	Gain/(loss)
------------------	--------------	------	-------------

Asset 1	1.1.2004	30.6.2007	3,000	500
Asset 2	1.1.2005	30.6.2007	4,000	(1,450)
Asset 3	1.3.1995	30.6.2007	1,000	(50)
				(1,000)

Rate of depreciation is straight line using 10% per annum.
All assets have residual value of 10% of cost.

Required:

- A. Prepare cash flow statement using indirect method.
B. Prepare cash flow statement using direct method (only operating activities).

Question-6

Following is the Balance Sheet of Mr. Pure Water as on June 30, 2002:

	2002 (Rs. in '000')	2001
FIXED ASSETS		
Tangible fixed assets	399	320
Intangible assets	263	210
Long terms investments	-	26
CURRENT ASSETS		
Stock in trade	158	107
Trade debtors	410	331
Investment	53	-
Cash in hand	2	1
	623	439
	1285	995
CAPITAL AND LIABILITIES		
Capital	642	517
Non current liabilities		
Long term loans	179	53
CURRENT LIABILITIES		
Trade creditors and accrued liabilities	464	425
	464	425
	1,285	995

Extract of Profit & Loss Account for the year ended June 30, 2002:

	Rs. in 000
Operating Profit	221
Interest income	26
	247
Interest expense	(79)
Profit	168

The following additional information is available:

- (a) The proceeds of the sale of Long Term Investments amounts to Rs. 32,000.
(b) Fixture and fittings, with an original cost of Rs. 89,000 and book value of Rs. 42,000 were sold for Rs. 32,000 during the year.

- (c) The following information is available for fixed assets:

	2002	2001
	(Rs. in '000')	
Cost	756	625
Accumulated Depreciation	(357)	(305)
Net Book Value	<u>399</u>	<u>320</u>

- (d) Drawings amounted to Rs. 105,000.

Required: Prepare Cash Flow Statement for the year ended June 30, 2002.

(15)

Question-7

Following is the abridged balance sheet of Mr. Azam as at June 30, 2006.

	2006	2005
	(Rs. in '000')	
Furniture, machine and computer	10,500	10,000
Vehicle	1,200	1,000
Short term investments	750	500
Stocks	1,290	1,000
Trade receivables (net of provisions)	450	400
Advances and deposits	200	200
Cash and bank balances	160	100
Bank overdraft	(400)	(200)
Creditors and other liabilities	(2,730)	(1,900)
Interest payable	(20)	-
Net Assets	<u>11,400</u>	<u>11,100</u>
Capital	11,400	11,100

The following additional information is also available:

- Accounting profit is Rs. 3,000,000.
- Depreciation on all assets for the year is Rs. 750,000.
- Provision for doubtful debts at the end of the year amounted to 5% of closing balance of trade receivables. The opening balance of the provision was NIL.
- Markup paid during the year amounted to Rs. 500,000.
- An old machine having book value of Rs. 500,000 was exchanged with a new machine costing Rs. 950,000. The company paid Rs. 350,000 as the difference. No other fixed asset was disposed of during the year.
- Vehicle is depreciated at 35% of book value.

Required:

Prepare a cash flow statement under 'indirect method'

(15)

Question-8

Prepare a cash flow statement for Lee Ltd for the year ended 31 December 20X4 using the in-direct method. (12)

Profit and Loss Account for the year ended 31 December 20X4

	Rs.	Rs.
Sales		6,500
Less Cost of goods sold		(3,000)
Gross profit		<u>3,500</u>
Less Expenses		
Wages	2,000	
Other costs	600	
Depreciation	500	
Interest	<u>100</u>	(3,200)
Profit for the year		<u>300</u>
Dividend		(50)
Retained profit		<u><u>250</u></u>

Balance Sheet as at December 31

	20X4		20X3	
	Rs.	Rs.	Rs.	Rs.
Fixed assets at cost		4,500		3,800
Less Accumulated depreciation		<u>2,300</u>		<u>1,800</u>
Net book value		2,200		2,000
Current Assets				
Stock	400		500	
Trade debtors	150		200	
Cash	<u>200</u>	750	<u>100</u>	800
Current Liabilities				
Trade creditors	325		300	
Accrued wages	<u>25</u>	(350)	<u>50</u>	(350)
Financed by:		<u>2,600</u>		<u>2,450</u>
Loan		900		1,000
Ordinary share capital		1,000		1,000
Retained earnings		<u>700</u>		<u>450</u>
		<u>2,600</u>		<u>2,450</u>

Question-9

From the following profit and loss and balance sheet information, prepare a cash flow statement using the indirect method. (12)

Profit and Loss Account for the year ended 31 December 20X4

	Rs. in '000'	Rs. in '000'
Sales		10,000
Cost of goods sold		(6,000)
Gross profit		<u>4,000</u>
Less: Expenses		
Depreciation		
Interest	600	
Other expenses	150	
Profit for the year before tax	<u>2,100</u>	(2,850)
Tax		<u>1,150</u>
Profit for the year after tax		<u>(200)</u>
Dividend		950
Retained profit		<u>(150)</u>
		<u><u>800</u></u>

Balance Sheet as at 31 December
20X4

	Rs.	Rs.	Rs.	Rs.
Fixed assets at cost		6,000		6,000
Less Accumulated depreciation		<u>3,000</u>		<u>2,400</u>
Net book value		3,000		3,600
Current Assets				
Stock	500		450	
Trade debtors	200		250	
Cash	<u>1,610</u>	2,310	<u>150</u>	850
Less Current Liabilities				
Trade creditors	310		300	
Taxation	<u>200</u>	<u>(510)</u>	<u>150</u>	<u>(450)</u>
		<u>4,800</u>		<u>4,000</u>
Financed by:				
Ordinary share capital		2,000		2,000
Retained earnings		<u>2,800</u>		<u>2,000</u>
		<u>4,800</u>		<u>4,000</u>

Question-10

FELIX Limited is a technology company that has produced the following financial statements for the year ended 31 December 2012.

Felix Limited
Statement of Profit or Loss for the year ended 31 December 2012

	Rs.in'000'
Revenue	351
Cost of sales	<u>(232)</u>
Gross profit	119
Other income	16
Administration	<u>(46)</u>
Distribution	<u>(27)</u>
Operating profit	62
Interest payable	<u>(18)</u>
Profit before taxation	44
Taxation	<u>(17)</u>
Profit after tax	<u>27</u>

Felix Limited
Statement of Financial Position as at 31 December 2012

	2012	2011
	Rs.in'000'	Rs.in'000'
Assets		
Non-current assets		
Property, plant & equipment	2,140	1,970
Current assets		
Inventories	89	67
Trade Receivables	72	98
Prepayments	21	14
Bank	<u>38</u>	<u>35</u>
	<u>2,360</u>	<u>2,184</u>

Equity & Liabilities		
Share capital and reserves	1,015	
Share capital (Rs. 1 shares)	60	970
Share premium	427	55
Profit and loss	1,502	421
		1,446
Non-Current Liabilities	690	
Long term loans		510
Current liabilities		
Trade Payables	110	141
Accruals	23	31
Corporation tax	35	56
	2,360	228
		2,184

The following additional information is also available:

1. The net book value of non-current assets is arrived at as follows:

	2012 Rs.in'000.	2011 Rs.in'000.
Property, plant & equipment at cost	2,590	2,470
Accumulated depreciation	(450)	(500)
	2,140	1,970

2. Accruals include the following amounts in relation to interest charges at year end:

	2012 Rs.in'000.	2011 Rs.in'000.
Amount owing at year end	12	17

3. During the year an asset which cost Rs. 92,000 was sold for Rs. 31,000. The asset was depreciated by Rs. 77,000 at the date of sale.
4. Investments sold during the year were sold at par value. No new investments were acquired.
5. The ordinary dividend declared and paid during the year was Rs. 21,000.
6. Insurance of Rs. 12,000, paid for the quarter ending 31 March 2013, was included in administration costs.

Required

Prepare the Statement of Cash Flows for Felix Limited for the year to 31 December 2012. (16)

Question-11

The Statement of Financial Position, Statement of Changes in Equity and other relevant information of FRANCHISE Limited, for the year ended 31 December 2012, are as follows:

Statement of Financial Position as at 31 December 2012

	2012		2011	
	Rs.	Rs.	Rs.	Rs.
Assets				
Non-current assets	332,550		180,800	
Investments at cost	130,000	462,550	130,000	310,800
Current assets				
Inventories	132,420		156,780	
Trade receivables	142,560		92,360	
Prepayments	21,800	296,780	6,300	255,440
Total assets		759,330		566,240

Equity And Liabilities**Capital and reserves**

Ordinary shares

Share premium

Retained earnings

220,000

15,000

155,380

390,380

160,000

0

133,190

293,190

Non-current liabilities

Debentures

Current liabilities

Trade payables

Accrued expenses

Bank overdraft

Corporation tax

135,000

86,500

95,340

83,260

19,360

12,440

56,500

42,600

62,750

233,950

48,250

186,550

759,330

566,240

Additional information:

1. The Statement of Profit and Loss includes the following charges for the year:

	2012	2011
	Rs.	Rs.
Interest	18,500	9,400
Taxation	23,000	18,450
Depreciation	30,000	26,700

There was no interest owing at year end.

2. The company disposed of plant and equipment during the year with a net book value of Rs.35,000. Proceeds from the sale amounted to Rs. 50,000.
3. The ordinary dividend declared and paid during the year was Rs. 27,000.

Required

Prepare a Statement of Cash Flows for Franchise Limited for the year to 31 December 2012 in accordance with IAS 7 *Statement of Cash Flows*.

(12)

Question-12

Junaid Janjua Ltd has provided you the following balance sheet and income statement.

Balance Sheet as on December 31, 2010

	2010	2009
	Rs	Rs.
Cash	145,000	32,000
Trade receivables	280,000	104,000
Long-term investments	220,000	170,000
Inventory	424,000	200,000
Prepayments	38,000	43,000
Land	1,810,000	2,500,000
Building	2,800,000	2,300,000
Accumulated depreciation	(890,000)	(720,000)
Equipment	1,200,000	1,150,000
Accumulated depreciation	(380,000)	(350,000)
Total assets	5,647,000	5,429,000

Trade payables	158,000	263,000
Expenses Payable	40,000	24,000
Short-term loans	580,000	580,000
Long-term loans	985,000	1,160,000
Share Capital	2,482,000	1,518,000
Retained earnings	1,402,000	1,884,000
Total liabilities and equity	5,647,000	5,429,000

Income Statement for the year ended December 31, 2010

Sales revenue	9,280,000
Cost of goods sold	(6,199,000)
Gross profit	3,081,000

Less: Operating expenses

Selling expenses	634,000
Administrative expenses	1,348,000
Other expense (Loss on sale of equipment)	15,000
Depreciation expenses	230,000
	(2,227,000)

Add: other incomes

- Gain on sale of land	64,000
- Gain on sale of long term investment	32,000
	96,000
Net income	950,000

Notes:

- (a) Long term investments costing Rs. 100,000 were sold during the year.
 (b) Depreciation charged during the year on equipment amounted to Rs. 60,000. Equipment having a book value of Rs. 75,000 was sold during the year.
 (c) Dividend amounted to Rs. 1,432,000.

Required:

- A. Prepare a cash flow statement for the year ended December 31, 2010 (from indirect method)
 B. Prepare a cash flow statement for the year ended December 31, 2010 from direct method (only Operating cash flow)

Question-13

The following data relates to Shahnawaz Sports (Private) Limited for the year ended June 30, 2006 and 2007.

Particulars	2007	2006
	Rs.	Rs.
Inventory	230,000	185,000
Prepaid expenses	14,000	16,000
Trade debtors	52,000	30,000
Cash	15,000	38,000
Accounts payable	39,000	44,000
Income tax payable	5,000	4,000
Sales	500,000	
Cost of sales	310,000	
Operating expenses	80,000	
Interest expenses	21,000	
Taxation	30,000	
Depreciation - included in operating expenses	6,000	
-Included in cost of goods sold	6,000	
Profit before tax	89,000	

Required:

What will be the net cash flow from operating activities is as under:

- A. Direct method
- B. Indirect method

PRACTICE SOLUTIONS**Answer-1****Cash flow indirect method****Cash flow from Operating Activities**

Profit for the year

Adjustments for:

Depreciation

Interest expense

Operating cash flow before working capital changes

Adjustment for working capital changes

(Increase)/decrease in current assets

(Increase)/decrease in inventory

(Increase)/decrease in debtors [(11,000-8,00) - (8,000-400)]

(Increase)/decrease in pre payments

Increase/(Decrease) in current liabilities

Increase/(decrease) in creditors

Increase/(decrease) in accrued expenses

Working capital changes

Cash generated from operations

Less: Interest paid

(W-5)

Net Cash from operating activities

A

Cash flow from Investing Activities

Purchases of fixed assets

(W-3)

Purchases of investment

(W-6)

Net cash from investing activities

B

Cash flow from Financing Activities

New capital from owner

(W-2)

Loan raised

(W-7)

Net cash from financing activities

C

Net increase in cash and cash equivalents

(A+B+C)

Add: cash and cash equivalents at beginning of period

(W-1)

Cash and cash equivalents at end of period

(W-1)

WORKINGS**(W-1) Cash and cash equivalents**

Bank

Cash

Short term investment

Bank overdraft

2007	2006
3,000	700
600	1,200
10,000	5,000
(3,000)	(1,000)
10,600	5,900

Rs.

7,250

6,550

800

7,350

14,600

(1,000)

(2,600)

400

(1,000)

700

(3,500)

11,100

(1,200)

9,900

(15,000)

(2,000)

(17,000)

10,800

1,000

11,800

4,700

5,900

10,600

(W-2)

Dr.		Capital account	Cr.
		Op.	
		Profit	30,080
cl.	48,130	Cash (New capital) (bal.)	7,250
			10,800

(W-3)

Dr.		Fixed asset at cost	Cr.
		Op.	
		Cash (additions) (bal.)	35,000
	15,000	cl.	
			50,000

(W-4)

Dr.		Accumulated depreciation	Cr.
		Op.	
		Depreciation	7,320
cl.	13,870		6,550

(W-5)

Dr.		Interest expense	Cr.
		Op.	
Cash (bal.)		P and L	
cl.	1,200		800
	400		800

(W-6)

Dr.		Investment account	Cr.
		Op.	
		Cash (new purchased) (bal.)	5,000
	2,000	cl.	
			7,000

(W-7)

Dr.		Loan account	Cr.
		Op.	
		Cash (raised) (bal.)	9,000
cl.	10,000		1,000

Cash flow direct method**Cash flow from operating activities**

		Rs.
Cash received from customers	(W-1)	47,000
Cash paid to suppliers	(W-2)	(16,000)
Cash paid for expenses	(W-3)	(19,900)
		11,100
Less:		
Interest paid		(1,200)
Net Cash from operating activities A		9,900

WORKINGS

(W-1)

Dr.		Debtor	Cr.
		Op.	
		Cash (bal.)	
Op.	8,000	cl.	47,000
Sale	50,000		11,000

(W-2)

Dr.

Creditor

Cash (bal.)
cl.16,000
7,000Op.
PurchasesCr.
8,000
15,000

(W-3)

Dr.

Expenses

Op. prepaid
Cash (bal.)
Cl. Payable2,000
19,900
4,000Op. payable
P and L (4,000+2,000+15,000)
Cl. PrepaidCr.
3,300
21,000
1,600

(W-4)

Dr.

Interest expense

Cash (bal.)
cl.1,200
400Op.
P and LCr.
800
800**Answer-2****Cash flow indirect method**

Rs.

Cash flow from Operating Activities

Profit for the year

159,650

Adjustments for:

Depreciation

Interest expense

14,850
7,500

Operating cash flow before working capital changes

22,350

Adjustment for working capital changes

182,000

(Increase)/decrease in current assets

(Increase)/decrease in inventory

(Increase)/decrease in debtors [(47,000-9,480)-(85,000-7,480)]

(Increase)/decrease in pre payments

Increase/(Decrease) in current liabilities

Increase/(decrease) in creditors

Increase/(decrease) in accrued expenses

(2,000)
40,000
2,500

Working capital changes

25,000
2,700

Cash generated from operations

68,200

Less:

Interest paid

Drawings

(W-5)

(W-2)

A

Net Cash from operating activities

(4,000)

(77,500)

168,700

Cash flow from Investing Activities

Purchases of fixed assets

Purchases of investment

Net cash from investing activities

(W-3)

(W-6)

B

(175,000)

(30,000)

(205,000)

Cash flow from Financing Activities

New capital from owner		
Loan raised	(W-2)	-
Net cash from financing activities	(W-7) C	15,000
Net increase in cash and cash equivalents		15,000
Add: cash and cash equivalents at beginning of period	(A+B+C)	(21,300)
Cash and cash equivalents at end of period	(W-1)	(4,500)
	(W-1)	<u>(25,800)</u>

WORKINGS**(W-1) Cash and cash equivalents**

	2009	2008
Bank	5,800	4,500
Cash	3,400	6,000
Short term investment	15,000	10,000
Bank overdraft	(50,000)	(25,000)
	<u>(25,800)</u>	<u>(4,500)</u>

(W-2)

Dr.	Capital account	Cr.
Cash (Drawings) (bal.)	77,500	Op.
cl.	701,090	Profit
		618,940
		159,650

(W-3)

Dr.	Fixed asset at cost	Cr.
Op.	650,000	
Cash (additions) (bal.)	175,000	cl.
		825,000

(W-4)

Dr.	Accumulated depreciation	Cr.
cl.	40,330	Op.
		Depreciation (bal.)
		25,480
		14,850

(W-5)

Dr.	Interest expense	Cr.
Cash (bal.)	4,000	Op.
cl.	15,000	P and L
		11,500
		7,500

(W-6)

Dr.	Investment account	Cr.
Op.	120,000	
Cash (new purchased) (bal.)	30,000	cl.
		150,000

(W-7)

Dr.	Loan account	Cr.
cl.	100,000	Op.
		Cash (raised) (bal.)
		85,000
		15,000

Cash flow direct method**Cash flow from operating activities**

		Rs.
Cash received from customers	(W-1)	438,000
Cash paid to suppliers	(W-2)	(105,000)
Cash paid for expenses	(W-3)	(82,800)
		<u>250,200</u>

Less:

Interest paid
Drawings

(W-4)

(W-5)

(4,000)
(77,500)
(81,500)
168,700

Net Cash from operating activities A

WORKINGS

(W-1)

Dr.	Debtor		Cr.
Op.	85,000	Cash (bal.)	438,000
Sale	400,000	cl.	47,000

(W-2)

Dr.	Creditor		Cr.
Cash (bal.)	105,000	Op.	125,000
cl.	150,000	Purchases	130,000

(W-3)

Dr.	Expenses		Cr.
Op. prepaid	4,500	Op. payable	6,600
Cash (bal.)	82,800	P and L (25,000+35,000+28,000)	88,000
cl. Payable	9,300	cl. prepaid	2,000

(W-4)

Dr.	Interest expense		Cr.
Cash (bal.)	4,000	Op.	11,500
cl.	15,000	P and L	7,500

(W-5)

Dr.	Capital account		Cr.
Cash (Drawings) (bal.)	77,500	Op.	618,940
cl.	701,950	Profit	159,650

Answer-3**Cash flow indirect method**

Rs.

Cash flow from Operating Activities

Profit for the year

445,075

Adjustments for:

Depreciation

35,425

Gain on sale fixed

(10,000)

Interest expense

2,500

Operating cash flow before working capital changes

27,925

Adjustment for working capital changes

473,000

(Increase)/decrease in current assets

(Increase)/decrease in inventory

(45,000)

(Increase)/decrease in debtors-net [(105,000-18,850)-(125,000-12,850)]

26,000

(Increase)/decrease in pre payments

3,800

Increase/(Decrease) in current liabilities

65,000

Increase/(decrease) in creditors

6,400

Increase/(decrease) in accrued expenses

56,200

Working capital changes

529,200

Cash generated from operations

Less:

Interest paid	(W-6)	(1,400)
Drawings	(W-2)	(261,800)
Net Cash from operating activities	A	266,000

Cash flow from Investing Activities

Purchases of fixed assets	(W-3)	(404,500)
Sales proceeds from disposal of fixed assets	(W-5)	100,000
Purchases of investment	(W-7)	(65,000)
Net cash from investing activities	B	(369,500)

Cash flow from Financing Activities

New capital from owner	(W-2)	-
Loan raised	(W-8)	125,000
Net cash from financing activities	C	125,000

Net increase in cash and cash equivalents	(A+B+C)	21,500
Add: cash and cash equivalents at beginning of period	(W-1)	2,000
Cash and cash equivalents at end of period	(W-1)	23,500

WORKINGS**(W-1) Cash and cash equivalents**

	2009	2008
Bank	15,000	12,000
Cash	4,500	5,000
Short term investment	10,000	20,000
Bank overdraft	(6,000)	(35,000)
	23,500	2,000

(W-2)

Dr.	Capital account	Cr.
Cash (Drawings) (bal.)	261,800	Op.
cl.	2,115,000	Profit
		1,931,725
		445,075

(W-3)

Dr.	Fixed asset at cost	Cr.
Op.	1,785,000	Disposal
Cash (additional) (bal.)	404,500	cl.
		100,000
		2,089,500

(W-4)

Dr.	Accumulated depreciation	Cr.
Disposal a/c (bal.)	10,000	Op.
cl.	150,850	Depreciation
		125,425
		35,425

(W-5)

Dr.	Disposal a/c-vehicle	Cr.
Fixed assets	100,000	Accumulated depreciation
Gain on sale of vehicle	10,000	Cash
		10,000
		100,000

(W-6)

Dr.

Cash (bal.)
cl.

Interest expense

1,400 Op.
7,500 P and L

Cr.

6,400
2,500

(W-7)

Dr.

Op.
Cash (new purchased) (bal.)

Investment account

250,000
65,000 cl.

Cr.

315,000

(W-8)

Dr.

cl.

Loan account

375,000 Op.
Cash (raised) (bal.)

Cr.

250,000
125,000Cash flow direct methodCash flow from operating activities

Cash received from customers

(W-1)

Cash paid to suppliers

(W-2)

Cash paid for expenses

(W-3)

Rs.

1,220,000
(535,000)
(155,800)
529,200

Less:

Interest paid

(W-4)

Drawings

(W-5)

(1,400)
(261,800)
(263,200)
266,000

Net Cash from operating activities A

WORKINGS

(W-1)

Dr.

op.

Sale

Debtor

125,000
1,200,000Cash (bal.)
cl.

Cr.

1,220,000
105,000

(W-2)

Dr.

Cash (bal.)

cl.

Creditor

535,000
150,000op.
Purchases

Cr.

85,000
600,000

(W-3)

Dr.

op. prepaid

Cash (bal.)

cl. Payable

Expenses

6,500
155,800
8,500op. payable
P and L (125,000+27,000+14,000)
cl. prepaid

Cr.

2,100
166,000
2,700

(W-4)

Dr.

Cash (bal.)

cl.

Interest expense

1,400
7,500op.
P and L

Cr.

6,400
2,500

(W-5)

Dr.

Drawings

cl.

Capital account

261,800
2,115,000op.
Profit

Cr.

1,931,725
445,075

Answer-4**Cash flow indirect method****Cash flow from Operating Activities**

Profit for the year

Rs.

339,620

Adjustments for:

Depreciation

Gain on sale of investments

Loss on sale of fixed assets

Interest expense

(50,000-70,000)

59,840

(20,000)

80,000

3,540

123,380

463,000

Operating cash flow before working capital changes

Adjustment for working capital changes

(Increase)/decrease in current assets

(Increase)/decrease in inventory

(Increase)/decrease in debtors-net [(135,900-28,850)-(225,000-116,850)]

(Increase)/decrease in pre payments

Increase/(Decrease) in current liabilities

Increase/(decrease) in creditors

Increase/(decrease) in accrued expenses

Working capital changes

(30,000)

101,100

1,100

120,000

2,000

194,200

657,200

Cash generated from operations

Less:

Interest paid

Drawings

(W-6)

(W-2)

(2,540)

(553,985)

Net Cash from operating activities

A

100,675

Cash flow from Investing Activities

Purchases of fixed assets

Sale proceeds from disposal of fixed assets

Proceeds from sale of investments

Purchases of investment

(W-3)

(W-5)

(W-9)

(W-7)

(429,655)

120,000

70,000

(59,600)

Net cash from Investing activities

B

(299,255)

Cash flow from Financing Activities

New capital from owner

Loan raised

(W-2)

(W-8)

73,580

100,000

Net cash from financing activities

C

173,580

Net increase in cash and cash equivalents

(A+B+C)

(25,000)

Add: cash and cash equivalents at beginning of period

(W-1)

14,500

Cash and cash equivalents at end of period

(W-1)

(10,500)

WORKINGS**(W-1) Cash and cash equivalents**

Bank

Cash

Short term investment

Bank overdraft

2009

2008

23,000

17,000

9,500

7,500

17,000

25,000

(55,000)

(35,000)

(10,500)

14,500

(W-2)

Dr.

Capital account

Drawings
cl.553,985
1,110,830Op.
Profit
New capital (bal.)Cr.
1,251,615
339,620
73,580

(W-3)

Dr.

Fixed asset at cost

Op.
Cash (additions) (bal.)1,540,345
429,655Deletion
cl.Cr.
225,000
1,745,000

(W-4)

Dr.

Accumulated depreciation

Disposal a/c
cl.25,000
460,520Op.
DepreciationCr.
425,680
59,840

(W-5)

Dr.

Disposal a/c-plant & machinery

Fixed assets

225,000

Accumulated depreciation
Cash
Loss on sale of fixed assets (bal.)Cr.
25,000
120,000
80,000

(W-6)

Dr.

Interest expense

Cash (bal.)
cl.2,540
3,500Op.
P and L.Cr.
2,500
3,540

(W-7)

Dr.

Investment account

Op.
Cash (new purchased) (bal.)315,400
59,600Sale of investment
cl.Cr.
50,000
325,000

(W-8)

Dr.

Loan account

cl.

450,000

Op.
Cash (raised) (bal.)Cr.
350,000
100,000Cash flow direct methodCash flow from operating activities
Cash received from customers
Cash paid to suppliers
Cash paid for expenses

Less:

Interest paid
Drawings

Net Cash from operating activities A

(W-1)

(W-2)

(W-3)

(W-4)

Rs.

1,939,100
(735,000)
(546,900)
657,20072,540
(553,985)
(556,525)
100,675

WORKINGS

(W-1)

Dr.	Debtor	Cr.
op.	225,000	Cash (bal.)
Sale	1,850,000	cl.
		1,939,100
		135,900

(W-2)

Dr.	Creditor	Cr.
Cash (bal.)	735,000	op.
cl.	345,000	Purchases
		225,000
		855,000

(W-3)

Dr.	Expenses	Cr.
op. prepaid	8,500	op. payable
Cash (bal.)	546,900	P and L (350,000+125,000+75,000)
cl. Payable	9,100	cl. prepaid
		7,100
		550,000
		7,400

(W-4)

Dr.	Interest expense	Cr.
Cash (bal.)	2,540	op.
cl.	3,500	P and L
		2,500
		3,540

Answer-5

Cash flow statement using indirect method

Cash flow from Operating Activities

Profit for the year		Rs.	4,655
Adjustments for:			
Depreciation			4,745
Net loss on sale of fixed assets			1,000
Loss on sale of investments			800
Interest expense			600
			7,145
Operating cash flow before working capital changes			11,800
Adjustment for working capital changes			
(Increase)/decrease in current assets			
(Increase)/decrease in inventory			2,000
(Increase)/decrease in debtors [(9,000-800) - (6,000-600)]			(2,800)
(Increase)/decrease in prepayments			200
Increase/(Decrease) in current liabilities			
Increase/(decrease) in creditors			(1,000)
Increase/(decrease) in accrued expenses			700
Working capital changes			(900)
Cash generated from operations			10,900
Less:			
Interest paid (W-9)			(800)
Drawings made			(10,000)
Net Cash from operating activities	A		100
Cash flow from Investing Activities			
Purchase of fixed assets (W-3)			(18,000)
Sale proceeds from disposal of fixed assets [(W-5) 2,555 + (W-6) 1,650 + (W-7) 50]			4,255
Purchase of investment (W-10)			(3,000)
Sale proceeds of investment (W-10.1)			200
Net cash from investing activities	B		(16,545)

Cash flow from Financing Activities

New capital from owner	(W-2)
Loan raised	(W-11)
Loan repaid	C
Net cash from financing activities	(A+B+C)
Net increase in cash and cash equivalents	(W-1)
Add: cash and cash equivalents at beginning of period	(W-1)
Cash and cash equivalents at end of period	(W-1)

16,545
3,000
(2,000)
17,545
1,100
1,400
2,500

WORKINGS**(W-1) Cash and cash equivalents**

Bank
Cash
Short term investment
Bank overdraft

2007	2006
3,000	700
300	600
200	100
(1,000)	-
2,500	1,400

(W-2)**Dr.**Drawing
cl.**Capital account**10,000
29,300

op.

Profit

Cash (New capital) (bal.)

Cr.18,100
4,655
16,545**(W-3)****Dr.**

op.

Cash (additions) (bal.)

Fixed asset at cost20,000
18,000

Disposal Asset 1

Disposal Asset 2

Disposal Asset 3

cl.

Cr.3,000
4,000
1,000
30,000**(W-4)****Dr.**

Disposal Asset 1 (W-8)

Disposal Asset 2 (W-8)

Disposal Asset 3 (W-8)

cl.

Accumulated depreciation945
900
900
6,000

op.

Depreciation

Cr.4,000
4,745**(W-5)****Dr.**

Cost

P and L

Asset 1 Disposal Account3,000
500

Accumulated depreciation (W-8)

Cash (bal.)

Cr.945
2,555**(W-6)****Dr.**

Cost

Asset 2 Disposal Account

4,000

Accumulated depreciation (W-8)

Cash (bal.)

P and L

Cr.900
1,650
1,450**(W-7)****Dr.**

Cost

Asset 3 Disposal Account

1,000

Accumulated depreciation (W-8)

Cash (bal.)

P and L

Cr.900
50
50

(W-8)

Calculation of accumulated depreciation of assets disposed off

	Asset 1	Asset 2	Asset 3
Cost	3,000	4,000	1,000
Residual value	(300)	(400)	(100)
Depreciable amount	2,700	3,600	900
Depreciation per year	270	360	90
Life till date of disposal (in years)	3.5Y	2.5Y	10Y
	945	900	900

(W-9)

Dr.	Interest expense	Cr.
Cash (bal.)	800	op.
cl.	200	P and L
		600

(W-10)

Dr.	Investment account	Cr.
op.	4,000	Disposed (4000/4)
Cash (new purchased) (bal.)	3,000	cl.
		6,000

(W-10.1) Entry for disposal of investment

	Dr.	Cr.
Cash (bal.)	200	
P and L	800	
Investment		1,000

(W-11)

Dr.	Loan account	Cr.
Cash (repaid) (bal.)	2,000	op.
cl.	5,000	Cash (raised)
		3,000

Cash flow statement using direct method

		Rs.
Cash received from customers	(W-1)	37,000
Cash paid to suppliers	(W-2)	(14,000)
Cash paid for expenses	(W-3)	(12,100)
		900
Less:		
Interest paid	(W-4)	(800)
Drawings made		(10,000)
		(10,800)
		100

Net Cash from operating activities A

WORKINGS

(W-1)

Dr.	Debtor	Cr.
op.	6,000	Cash (bal.)
Sale	40,000	cl.
		9,000

(W-2)

Dr.	Creditor	Cr.
Cash (bal.)	14,000	op.
cl.	5,000	Purchases
		13,000

(W-3)

Dr.	Expenses	Cr.
op. prepaid	1,000	op. payable
Cash (bal.)	12,100	P and L (2,000 + 3,000 + 8,000)
cl. Payable	4,000	cl. prepaid
		800

(W-4)			
Dr.	Interest expense		Cr.
Cash (bal.)	800	op.	400
cl.	200	P and L	600

Answer-6

Mr. Pure Water
Cash flow statement
For the year ended June 30, 2002

Cash flow from Operating Activities

Profit before tax		Rs.	168
Adjustments for:			
Depreciation	(W-6)		99
(Gain)/loss on sale of furniture	(W-5)		10
(Gain)/loss on sale of investments	(W-7)		(6)
Interest expense			79
Interest income			(26)
Operating cash flow before working capital changes			156
Adjustment for working capital changes			324
(Increase)/decrease in current assets			
(Increase)/decrease in inventory			(51)
(Increase)/decrease in debtors (net)			(79)
Increase/(Decrease) in current liabilities			
Increase/(decrease) in creditors			39
Working capital changes			(91)
Cash generated from operations			233
Less:			
Interest paid			(79)
Drawings made			(105)
Net cash from Operating activities	A		49

Cash flow from Investing Activities

Purchase of fixed assets			(220)
Intangible purchased (additions)	(W-4)		(53)
Sale proceeds from disposal of fixed assets	(263 - 210)		32
Sale proceeds of investment			32
Interest received			26
Net Cash from investing activities	B		(183)

Cash flow from Financing Activities

New Capital form owner			
Loan raised	(W-2)		62
Loan repaid	(W-8)		126
Net cash from financing activities	C		-
Net increase in cash and cash equivalents			188
Add: cash and cash equivalents at beginning of period	(A+B+C)		54
Cash and cash equivalents at end of period	(W-1)		1
	(W-1)		55

WORKINGS**(W-1) Cash and cash equivalents**

	2002	2001
Cash	2	1
Short term investment	53	-
	<u>55</u>	<u>1</u>

(W-2)

Dr.	Capital account	Cr.
Drawing	105	Op.
cl.	642	Profit
		New capital (bal.)
		517
		168
		62

(W-3 deleted)**(W-4)**

Dr.	Asset account at cost	Cr.
b/d	625	Disposal
Additions (bal.)	220	cl.
		756

(W-5)

Dr.	Disposal Account	Cr.
Cost	89	Accumulated depreciation (89-42)
		Cash
		P and L (bal.)
		47
		32
		10

(W-6)

Dr.	Accumulated depreciation	Cr.
Asset disposal	47	Op.
cl.	357	Depreciation (bal.)
		99

Entry for disposal of investment

	Dr.	Cr.
Cash		
P and L	32	
Investment		6
(Entry for disposal of investment)		26

(W-8)

Dr.	Long term loan	Cr.
cl.	179	Op.
		Cash (bal.)
		53
		126

Answer-7**Mr. Azam****Cash flow statement****For the year ended June 30, 2006****Cash flow from Operating Activities**

Profit for the year

Rs. in '000'

Adjustments for:

3,000

Depreciation on furniture, machine and computer

750

Depreciation on vehicle

(W-5)

646

Interest expense

(W-6)

520

Gain on sale of machinery

(W-7)

(100)

1,816

Operating cash flow before working capital changes

4,816

Adjustment for working capital changes

Debtors
Stocks
Creditors and other liabilities
Working capital changes

Drawings (W-3)
Interest paid
Net Cash from operating activities A

Cash flow from Investing Activities

Purchase of furniture other than through exchange (W-4)
Exchange of assets (W-7)
Purchase of vehicle (W-5)
Net cash from investing activities B

Cash flow from Financing Activities

New capital from owner
Loan raised/ (repaid)
Net cash from financing activities C

Net increase in cash and cash equivalents (A+B+C)
Add: cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period

WORKINGS**(W-1) Cash and cash equivalents**

Short term investments
Cash and bank
Bank overdraft
Cash

(W-2) Deleted**(W-3)****Dr.**

Drawings (bal.)

Capital account

cl.	2,700	Op.		Cr.
		Profit		
	11,400	New capital		11,100
				3,000

(W-4)**Dr.**

b/d
Additions (bal.)
Disposal (exchange)

Furniture, machine and computer

10,000	Depreciation	Cr.
800	Disposal - Book value	
950	cl.	750
		500
		10,500

(W-5)**Dr.**

b/d
Cash (additions) (bal.)

Vehicle

1,000	Depreciation (1,200/65x35)	Cr.
846	cl.	
		646
		1,200

(W-6)

Dr.	Interest expense	Cr.
Cash	500	Op.
cl.	20	Profit and loss (bal.)
		520

(W-7) Entry for disposal of machine

	Dr.	Cr.
Machine	950,000	
P and L (bal.)		100,000
Machine BV		500,000
Cash		350,000

Answer-8Cash flow indirect methodCash flow from Operating Activities

	Rs.
Profit	300
Adjustments for:	
Depreciation	500
Interest expense	100
Operating cash flow before working capital changes	900
Adjustment for working capital changes	
(Increase)/decrease in current assets	
(Increase)/decrease in inventories	100
(Increase)/decrease in trade debtors	50
Increase/(Decrease) in current liabilities	
Increase/(decrease) in trade creditors	25
Increase/(decrease) in accruals	(25)
Working capital changes	150
Cash generated from operations	1,050
Less:	
Interest paid	(100)
Dividend paid	(50)
Net Cash from operating activities	900

Cash flow from Investing Activities

Purchase of fixed assets	(700)
Sale proceeds from disposal of fixed assets	-
Net cash from investing activities	(700)

Cash flow from Financing Activities

Proceeds from issue of share capital	-
Debenture loan repaid	(100)
Net cash from financial activities	(100)
Net increase in cash and cash equivalents	100
Add: cash and cash equivalents at beginning of period	100
Cash and cash equivalents at end of period	200

WORKINGS

(W-1) Cash and cash equivalents

Cash

20X4	20X3
200	100
200	100

(W-2)	Dr.	Interest expense		
	Cash (bal.)	100	op.	Cr.
	cl.	-	P and L	100
(W-3)	Dr.	Fixed asset at cost		
	op.	3,800	Disposal	Cr.
	Cash (additions) (bal.)	700	cl.	4,500
(W-4)	Dr.	Accumulated Depreciation		
	cl.	2,300	op.	Cr.
			Depreciation (bal.)	1,800
				500

Answer-9

Cash flow indirect method

Cash flow from Operating Activities

Profit before tax	
Adjustments for:	
Depreciation	
Interest expense	
Operating cash flow before working capital changes	
Adjustment for working capital changes	
(Increase)/decrease in current assets	
(Increase)/decrease in inventories	
(Increase)/decrease in trade debtors	
Increase/(Decrease) in current liabilities	
Increase/(decrease) in trade payables	
Working capital changes	
Cash generated from operations	
Less:	
Interest paid	
Dividend paid	
Income tax paid	
Net Cash from operating activities	
Cash flow from Investing Activities	
Purchase of fixed assets	
Sale proceeds from disposal of fixed assets	
Net cash from investing activities	
Cash flow from Financing Activities	
Proceeds from issue of share capital	
Net cash from financial activities	
Net increase in cash and cash equivalents	
Add: cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	

Rs.

1,150
600
150
1,900
(50)
50
10
10
1,910
(150)
(150)
(150)
1,460
-
-
-
1,460
150
1,610

(W-2)

(W-3)

A

B

C

(A+B+C)

(W-1)

(W-1)



WORKINGS

(W-1) Cash and cash equivalents

Cash

20X4	20X3
1,610	150
1,610	150

(W-2)	Dr.	Interest expense	Cr.
	Cash (bal.)	150	op.
	cl.	-	P and L
(W-3)	Dr.	Income tax expense	Cr.
	Cash (bal.)	150	op.
	cl.	200	P and L
(W-4)	Dr.	Non-current at cost	Cr.
	op.	6,000	Disposal
	Cash (additions) (bal.)	-	cl.
			6,000
(W-5)	Dr.	Accumulated Depreciation	Cr.
	cl.	3,000	op.
			Depreciation (bal.)
			600

Answer-10

Cash flow indirect method

Cash flow from Operating Activities

Rs.

Profit before tax	(W-2)	56
Adjustments for:		
Depreciation	(W-7)	27
(Gain) on sale of non-current assets	(W-8)	(16)
Interest expense		18
Operating cash flow before working capital changes		85
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventories		(22)
(Increase)/decrease in trade receivables		26
(Increase)/decrease in prepayments	(W-10) (14 - 33)	(19)
Increase/(Decrease) in current liabilities		(31)
Increase/(decrease) in trade payables	(W-9)	(3)
Increase/(decrease) in accrued expenses		(49)
Working capital changes		36
Cash generated from operations		
Less:		
Interest paid	(W-3)	(23)
Dividend paid		(21)
Income tax paid	(W-4)	(38)
Net Cash from operating activities	A	(46)
Cash flow from Investing Activities		
Purchase of fixed assets	(W-6)	(212)
Sale proceeds from disposal of fixed assets		31
Net cash from investing activities	B	(181)

Cash flow from Financing Activities

Proceeds from issue of share capital	(1,015 - 970) + (60 - 55)
Long term loan raised	(W-5)
Net cash from financial activities	C
Net increase in cash and cash equivalents	(A+B+C)
Add: cash and cash equivalents at beginning of period	(W-1)
Cash and cash equivalents at end of period	(W-1)

(1,015 - 970) + (60 - 55)
(W-5)
C
(A+B+C)
(W-1)
(W-1)

2007	2006
38	35
38	35

WORKINGS

(W-1) Cash and cash equivalents
Bank

(W-2) Profit before tax

As per question

Add: Prepaid expense wrongly debited to admin costs

44
12
56

(W-3)	Dr.	Interest expense	Cr.
	Cash (bal.)	23	op.
	cl.	12	P and L
			17
			18

B	Dr.	Income tax expense	Cr.
	Cash (bal.)	38	op.
	cl.	35	P and L
			56
			17

(W-5)	Dr.	Loan account	Cr.
	cl.	690	op.
			Cash (raised) (bal.)
			510
			180

(W-6)	Dr.	Non-current assets at cost	Cr.
	op.	2,470	Disposal
	Cash (additions) (bal.)	212	cl.
			92
			2,590

(W-7)	Dr.	Accumulated Depreciation	Cr.
	Disposal	77	op.
	cl.	450	Depreciation (bal.)
			500
			27

(W-8)	Dr.	Disposal Account	Cr.
	Cost	92	Accumulated depreciation
	P/L (bal.)	16	Cash
			77
			31

(W-9) Accruals

Accruals

Less: Interest accrued

(W-10) Prepayments

Prepayment

Add: Prepayment not recorded

2012	2011
23	31
(12)	(17)
11	14
2012	2011
21	14
12	-
33	14



Answer-11**Cash flow indirect method****Cash flow from Operating Activities**

		Rs.
Profit before tax		
Adjustments for:	(49,190 + 23,000)	72,190
Depreciation		
(Gain)/ loss on sale of fixed assets		30,000
Interest expense	(W-6)	(15,000)
Operating cash flow before working capital changes		18,500
Adjustment for working capital changes		105,690
(Increase)/decrease in current assets		
(Increase)/decrease in inventories		24,360
(Increase)/decrease in trade receivables		(50,200)
(Increase)/decrease in prepayments		(15,500)
Increase/(Decrease) in current liabilities		
Increase/(decrease) in trade payables		12,080
Increase/(decrease) in accrued expenses		6,920
Working capital changes		(22,340)
Cash generated from operations		83,350
Less:		
Interest paid		
Dividend paid	(W-3)	(18,500)
Income tax paid	(W-4)	(27,000)
		(8,500)
Net Cash from operating activities	A	29,350
Cash flow from Investing Activities		
Purchase of fixed assets		
Sale proceeds from disposal of fixed assets	(W-5)	(216,750)
Net cash from investing activities	B	50,000
		(166,750)
Cash flow from Financing Activities		
Proceeds from issue of share capital		
Long term loan raised	(220,000 - 160,000) + (15,000 - 0)	75,000
Net cash from financial activities	(W-2)	48,500
	C	123,500
Net increase in cash and cash equivalents	(A+B+C)	(13,900)
Add: cash and cash equivalents at beginning of period	(W-1)	(42,600)
Cash and cash equivalents at end of period	(W-1)	(56,500)

WORKINGS**(W-1) Cash and cash equivalents**

Bank overdraft

2012	2011
(56,500)	(42,600)
(56,500)	(42,600)

(W-2) Dr.	Loan account	Cr.
cl.	135,000	op.
		Cash (raised) (bal.)
(W-3) Dr.	Interest expense	48,500
Cash (bal.)	18,500	Cr.
cl.	-	op.
		P and L
		18,500

(W-4)	Dr.	Income tax expense		Cr.
	Cash (bal.)	8,500	op.	48,250
	cl.	62,750	P and L	23,000
(W-5)	Dr.	Plant and machinery at book value		Cr.
	op.	180,800	Depreciation	30,000
	Cash (additions) (bal.)	216,750	Disposal - BV	35,000
			cl.	332,550
(W-6)	Dr.	Disposal account		Cr.
	Non-current - BV	35,000		
	P/L (bal.)	15,000	Cash	50,000

Answer-12

Junaid Janjua Ltd.
Cash flow Statement
for the year ended December 31, 2010 :

Cash flow from Operating Activities

Profit for the year	(W-2)	Rs.
Adjustments for:		950,000
Depreciation expense		230,000
(Gain)/loss on sale of land		(64,000)
(Gain)/loss on sale of long term investments		(32,000)
(Gain)/loss on sale of equipment		15,000
		149,000
Operating cash flow before working capital changes		1,099,000
Adjustment for working capital changes		
(Increase)/decrease in current assets		
(Increase)/decrease in inventory	(200,000-424,000)	(224,000)
(Increase)/decrease in trade receivables	(104,000-280,000)	(176,000)
(Increase)/decrease in prepayments	(43,000-38,000)	5,000
Increase/(Decrease) in current liabilities		
Increase/(decrease) in trade payables	(158,000-263,000)	(105,000)
Increase/(decrease) in expenses payables	(40,000-24,000)	16,000
Working capital changes		(484,000)
Cash generated from operations		615,000
Less:		
Dividend paid		(1,432,000)
Net Cash from operating activities	A	(817,000)

Cash flow from Investing Activities

Purchase of building	(W-5)	(500,000)
Purchase of equipment	(W-7)	(155,000)
Sale proceeds from disposal of land	(W-4)	754,000
Sale proceeds from disposal of equipment	(W-9)	60,000
Purchase of long term investment	(W-11)	(150,000)
Sale proceeds of investment	(W-12)	132,000
Net cash from investing activities	B	141,000

Cash flow from Financing Activities

Capital introduced	(2,482,000-1,518,000)	964,000
Loan repaid	(W-10)	(175,000)
Net cash from financing activities	C	789,000
Net increase in cash and cash equivalents (A+B+C)		113,000
Add: cash and cash equivalents at beginning of period	(W-1)	(548,000)
Cash and cash equivalents at end of period	(W-1)	(435,000)

WORKINGS**(W-1) Cash and cash equivalents**

	2010	2009
Cash	145,000	32,000
Less: Short term loans	(580,000)	(580,000)
	<u>(435,000)</u>	<u>(548,000)</u>

(W-2)

Dr.	Retained earnings	Cr.
Dividend	1,432,000 b/d	1,884,000
c/d	1,402,000 Profit (bal.)	950,000

(W-3)

Dr.	Land at cost	Cr.
b/d	2,500,000 Land disposal (bal.)	690,000
	c/d	1,810,000

(W-4)

Dr.	Land Disposal Account	Cr.
Land cost (W-3)	690,000 Accumulated depreciation	-
P and L	64,000 Cash (bal.)	754,000

(W-5)

Dr.	Building at Cost	Cr.
b/d	2,300,000 c/d	2,800,000
Additional (bal.)	500,000	

(W-6)

Dr.	Accumulated depreciation-building	Cr.
c/d	890,000 b/d	720,000
	Depreciation (bal.)	170,000

(W-7)

Dr.	Equipment at cost	Cr.
b/d	1,150,000 Disposal (W-9)	105,000
Additional (bal.)	155,000 c/d	1,200,000

(W-8)

Dr.	Accumulated depreciation-equipment	Cr.
Disposals (bal.)	30,000 b/d	350,000
c/d	380,000 Depreciation	60,000

(W-9)

Dr.	Equipment Disposal Account	Cr.
Cost [(W-8) 30,000 + 75,000]	105,000 Accumulated depreciation	30,000
	P and L	15,000
	Cash (bal.)	60,000

(W-10)

Dr.

Long term loan

Cash (bal.)	175,000	b/d	Cr.
c/d	985,000		1,160,000

(W-11)

Dr.

Investment

b/d	170,000	Disposal	Cr.
Cash (new purchased) (bal.)	150,000	c/d	100,000
			220,000

(W-12) Entry for disposal of investment

Cash (bal.)	Dr.	Cr.
P and L	132,000	
Investment		32,000
(Entry for disposal of investment)		100,000

(B) Cash flow direct methodCash flows from Operating Activities

Cash receipts from customers	(W-1)	Rs.
Cash paid to suppliers	(W-2)	9,104,000
Cash paid for expenses	(W-4)	(6,528,000)
		(1,961,000)
		615,000
Cash generated from operations		
Less:		
Dividend paid		(1,432,000)
Net Cash from operating activities		(817,000)

WORKINGS

(W-1)

Dr.

Trade receivables

b/d	104,000	Cash (bal.)	Cr.
Sales	9,280,000	c/d	9,104,000
			280,000

(W-2)

Dr.

Trade Payables

Cash (bal.)	6,528,000	b/d	Cr.
c/d	158,000	Inventory (W-3)	263,000
			6,423,000

(W-3)

Dr.

Inventory

b/d	200,000	Cost of sales	Cr.
Purchases (bal.)	6,423,000	c/d	6,199,000
			424,000

(W-4)

Dr.

Expenses

b/d (prepaid)	43,000	b/d (payable)	Cr.
Cash (bal.)	1,961,000	P & L (634,000 + 1,348,000)	1,982,000
c/d	40,000	c/d	38,000

Answer-13**Cash flow direct method****Cash flow from Operating Activities**

		Rs.
Cash receipts from customers	(W-1)	478,000
Cash paid to suppliers	(W-2)	(354,000)
Cash paid for expenses	(W-4)	(72,000)
Cash generated from operations		52,000
Less:		
Interest paid		(21,000)
Income tax paid	(W-3)	(29,000)
Net cash from operating activities		<u>2,000</u>

WORKINGS

(W-1)

Dr.	Debtor Account	Cr.
b/d	30,000	Cash (balancing) 478,000
Sales	500,000	c/d 52,000

(W-2)

Dr.	Trade Payables	Cr.
Cash (balancing)	354,000	b/d 44,000
c/d	39,000	Inventory (W-2.1) 349,000

(W-2.1)

Dr.	Inventory Account	Cr.
b/d	185,000	Cost of sales (310,000 – 6,000) 304,000
Purchases (balancing)	349,000	c/d 230,000

(W-3)

Dr.	Income tax expense	Cr.
Cash (bal.)	29,000	b/d 4,000
c/d	5,000	P and L 30,000

(W-4)

Dr.	Prepaid expense	Cr.
b/d	16,000	P and L (80,000 – 6,000) 74,000
Cash (balancing)	72,000	c/d 14,000

Cash flow indirect methodCash flow from Operating Activities

Profit before tax		Rs. 89,000
Adjustments for:		
Depreciation	(6,000 + 6,000)	12,000
Interest expense		21,000
		<u>33,000</u>
Operating cash flow before working capital changes		122,000
Adjustment for working capital changes		
(Increase)/decrease in current assets		(45,000)
(Increase)/decrease in inventories		2,000
(Increase)/decrease in prepaid expenses		(22,000)
(Increase)/decrease in trade receivables		
Increase/(Decrease) in current liabilities		(5,000)
Increase/(decrease) in trade payables		<u>(70,000)</u>
Working capital changes		52,000
Cash generated from operations		
Less:		
Interest paid (No opening closing payable so expense is equal to payment)		(21,000)
Income tax paid (as in previous part)		(W-1) <u>(29,000)</u>
Net Cash from operating activities		<u>2,000</u>



ICAP PAST PAPER QUESTIONS**QUESTION-1**

The balance sheets of Fazal Din as at December 31, 2005 and 2006 are as follows:

Particulars	2005	2006
Cash in hand	Rs. 200,000	Rs. 300,000
Debtors - net	450,000	500,000
Stocks	400,000	650,000
Prepaid expenses	100,000	50,000
Fixed assets	1,150,000	1,650,000
Allowance for depreciation	(75,000)	(175,000)
Total	2,225,000	2,975,000

Particulars	2005	2006
Creditors	400,000	515,000
Accrued expenses	125,000	100,000
Bank overdraft	300,000	785,000
Capital	1,400,000	1,575,000
Total	2,225,000	2,975,000

Other information:

- Value of land included in fixed assets in 2005 amounted to Rs. 450,000.
- Another plot of land was acquired during the year from a relative, at a cost of Rs. 350,000.
- Mr. Fazal Din withdrew Rs. 100,000 out of profits made during 2006.
- An equipment costing Rs. 100,000 and having a book value of Rs. 40,000 was sold during the year for Rs. 60,000.

Required:

A statement of cash flow for the year ended December 31, 2006.

(10)

{Spring 2007, Q #3}

QUESTION-2

The comparative balance sheets of Mr. Moosani show the following information:

Particulars	Amount in Rs.	
	December 31	
	2008	2007
Cash	5,200	41,400
Accounts receivable	31,700	21,500
Inventory	25,000	19,400
Investments	-	16,900
Furniture	80,000	64,000
Equipment	86,000	43,000
Total	227,900	206,200
Allowance for doubtful accounts	6,500	9,700
Accumulated depreciation on equipment	24,000	18,000
Accumulated depreciation on furniture	8,000	15,000
Trade creditors	10,800	6,500
Accrued expenses	4,300	10,800
Bills payable	6,500	8,600
Long-term loans	31,800	53,800
Capital	136,000	83,800
Total	227,900	206,200

Additional data related to 2008 is as follows:

- (i) Equipment that had costed Rs. 23,000 and was 40% depreciated at the time of disposal was sold for Rs. 6,500.
- (ii) Payments against long-term loans amounted to Rs. 22,000 of which Rs. 12,000 was paid by Mr. Moosani out of his personal account.
- (iii) On January 1, 2008, the furniture was completely destroyed by a fire. Proceeds received from the insurance company amounted to Rs. 60,000.
- (iv) Investments were sold at Rs. 7,500 above their cost.
- (v) Mr. Moosani withdraws Rs. 15,000 each month for his personal use.

Required:

Prepare a cash flow statement for the year ended December 31, 2008.

(12)
{Spring 2009, Q# 3}

QUESTION-3

The balance sheets of Sakhawat Hussain as at December 31, 2009 and 2008 are as follows:

	2009	2008
	Rs.	Rs.
Current assets	4750,000	2,850,000
Investments	2,600,000	2,500,000
Fixed assets	9,750,000	9,600,000
Accumulated depreciation	(2,950,000)	(2,450,000)
	14,150,000	12,500,000
Current liabilities	2,050,000	1,600,000
Capital	11,000,000	10,000,000
Profit and loss account	1,100,000	900,000
	14,150,000	12,500,000

Other information for the year 2009 is as follows:

- (i) Investments costing Rs. 250,000 were sold for Rs. 320,000.
- (ii) Fully depreciated furniture costing Rs. 200,000 was written-off.
- (iii) Fixed assets costing Rs. 960,000 with a net book value of Rs. 160,000 were sold for Rs. 250,000.
- (iv) Sakhawat Hussain withdrew Rs. 1,200,000 from the profits of 2008 and 2009.
- (v) 20% of the opening and closing balances of current assets are represented by cash.

Required:

Prepare a statement of cash flow for the year ended December 31, 2009.

(11)
{Spring 2010, Q# 7}

QUESTION-4

Mr. Junaid Janjua has provided you the following statements of financial position and statement of comprehensive income.

Balance Sheet as on December 31, 2010

	2010	2009
	Rs.	Rs.
Cash	145,000	32,000
Accounts receivable	280,000	104,000
Long-term investments	220,000	170,000
Inventory	424,000	200,000
Prepaid insurance	24,000	36,000
Office supplies	14,000	7,000
Land	1,810,000	2,500,000
Building	2,800,000	2,300,000
Accumulated depreciation	(890,000)	(720,000)
Equipment	1,200,000	1,150,000
Accumulated depreciation	(380,000)	(350,000)
Total assets	5,647,000	5,429,000

Accounts payable		
Wages payable	158,000	263,000
Short-term loans	40,000	24,000
Long-term loans	580,000	580,000
Capital	985,000	1,160,000
Total liabilities and equity	3,884,000	3,402,000
	5,647,000	5,429,000

Income Statement for the year ended December 31, 2010

Sales revenue	Rs. 9,280,000
Cost of goods sold	(6,199,000)
Gross margin	3,081,000
Operating expenses	
Selling expenses	634,000
Administrative expenses	1,348,000
Depreciation expenses	230,000
	(2,212,000)
Income from operations	869,000
Other revenues/expenses	
Gain on sale of land	64,000
Gain on sale of long term investment	32,000
Loss on sale of equipment	(15,000)
	81,000
Net income	950,000

Notes:

- Part of the long term loan amounting to Rs. 100,000 was paid by Mr. Junaid from his personal account.
- Long term investments costing Rs. 100,000 were sold during the year.
- Depreciation charged during the year on equipment amounted to Rs. 60,000. Equipment having a book value of Rs. 75,000 was sold during the year.
- Drawings amounted to Rs. 568,000.

Required:

Prepare a cash flow statement for the year ended December 31, 2010.

(14)

{Spring 2011, Q# 4}

QUESTION-5

The balance sheet of Amin Industries as at 31 August 2011 is as follows:

	2011	2010		2011	2010
	Rs.	Rs.		Rs.	Rs.
Capital	33,433,000	27,942,000	Fixed assets – book value	15,172,000	12,346,000
			Current assets		
Current liabilities			Investments	4,911,000	-
Short term finance	2,545,000	1,616,000	Stock-in-trade	12,178,000	14,950,000
Creditors	3,457,000	2,850,000	Trade debts – net of provision for bad debts	6,732,000	4,887,000
	6,002,000	4,466,000	Bank	442,000	225,000
				24,263,000	20,062,000
				39,435,000	32,408,000
	39,435,000	32,408,000			

The following information is also available:

	Rs.
Profit during the year ended 31 August 2011	3,161,000
Mr. Amin's withdrawals during the year	3,120,000
Accumulated depreciation on fixed assets – 31 August 2010	5,605,000
Accumulated depreciation on fixed assets – 31 August 2011	7,470,000
Provision for bad debts – 31 August 2010	385,000
Provision for bad debts – 31 August 2011	484,000
During the year fixed assets costing Rs. 1,500,000 with a book value of Rs. 867,000 were sold for Rs. 1,284,000.	

Required:

Prepare a cash flow statement for the year ended 31 August 2011. Show necessary workings. (13)
{Autumn 2011, Q# 2}

QUESTION-6

The following information has been gathered from the books of Rehān Brothers for the year ended June 30, 2007:

- A loss of Rs. 453,000 was sustained during the year.
- Repairs to building amounting to Rs. 50,000 were erroneously debited to accumulated depreciation-building account.
- Depreciation for the year amounted to Rs. 163,000.
- Current assets (net of provisions) and current liabilities increased by Rs. 70,000 and Rs. 90,000 respectively.
- A plot of land for which Rs. 390,000 had been paid was sold for Rs. 600,000.
- A lather machine costing Rs. 200,000 was sold for Rs. 50,000. It was bought six years back. Depreciation had been provided at the rate of 10% on straight-line basis assuming 20% scrap value.
- A fully depreciated office equipment costing Rs. 5,600 was written off.
- An old computer costing Rs. 30,000 and book value of Rs. 10,000 was traded-in for a new machine costing Rs. 65,000 on payment of Rs. 50,000.

Required:

Cash flow statement for the year ended June 30, 2007.

(09)

{Autumn 2007, Q# 7}

QUESTION-7

A shopkeeper made a net profit of Rs. 256,800 for the year ended June 30, 2008 after charging depreciation of Rs. 17,500 and loss on disposal of furniture of Rs. 6,800. The sale proceeds of the furniture were Rs. 12,000.

During the year, the net book value of fixed assets decreased by Rs. 7,400; debtors increased by Rs. 11,700, stocks decreased by Rs. 21,600 and creditors increased by Rs. 8,900. A long-term loan of Rs. 75,000 was repaid during the year and the shopkeeper withdrew Rs. 120,000 for his own use.

Required:

Prepare the cash flow statement for the year ended June 30, 2008.

(07)

{Autumn 2008, Q# 5}

QUESTION-8

A summary of revenues and expenses of AB Enterprise for the year ended 30 June 2013 is given below:

	Rs.
Sales	
Cost of goods manufactured and sold	2,345,000
Gross profit	(1,624,000)
Selling, general and administrative expenses	721,000
Net income before income tax	(509,000)
Income tax	212,000
Net income	(90,000)
	122,000

CHAPTER-9

IAS 7: STATEMENT OF CASHFLOWS

Net changes in working capital items for the year ended 30 June 2013 were as follows:

	Net changes	
	Dr.	Cr.
Cash		
Trade receivables (net)	32,000	
Inventories		74,000
Prepaid expenses (selling and general)	105,000	
Accrued expenses		6,000
Income tax payable	15,000	
Trade payables	28,000	
	90,000	

Depreciation for the year amounted to Rs. 68,000.

Required:

Prepare a cash flow statement for the year ended 30 June 2013.

(07)

{Autumn 2013, Q#7}

QUESTION-9

Galaxy Brothers commenced their business on 1 January 2013 with cash of Rs. 50 million, a building valued at Rs. 25 million and a motor vehicle costing Rs. 1.4 million. Following is the summarised Trial Balance as of 31 December 2013:

Particulars	Debit	Credit
	Rs. in million	
Sales		136.00
Cost of sales (including depreciation expense of Rs. 9 million)	83.50	
Operating and selling expenses (including depreciation expense of Rs. 6.25 million)	37.30	
Miscellaneous income (net of loss of Rs. 0.35 on settlement of total loss claim)		0.50
Finance charges	2.50	
Taxation expense	6.00	
Cash and bank balances	5.00	
Bank overdraft		23.00
Accounts receivable	18.00	
Provision for doubtful debts		0.90
Closing inventory	10.00	
Accounts payable		14.00
Interest payable		1.20
Provision for taxation (net of payments)		1.00
Partners' capital (net of cash withdrawals)		73.95
12% Long term loan payable		25.00
Property, plant and equipment	128.25	
Accumulated depreciation		15.00
	<u>290.55</u>	<u>290.55</u>

Settlement of the insurance claim pertained to an accident of a new car costing Rs. 1.8 million and having a depreciation charge of Rs. 0.25 million for the period in use.

Required:

Prepare a statement of cash flow for the year ended 31 December 2013.

(13)

{Spring 2014, Q#7}